



Thembelihle Local Municipality
Financial statements
for the year ended 30 June 2014

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

General Information

| | |
|--|---|
| Nature of business and principal activities | Provision of municipal services in terms of the Municipal Finance Management Act No. 56 of 2003 and Municipal Systems Act No. 32 of 2000. |
| Registered office | Church Street Hopetown 8750 |
| Business address | Church Street Hopetown 8750 |
| Postal address | Private Bag X3 Hopetown 8750 |
| Bankers | Standard Bank Limited Absa Bank Limited |
| Auditors | Auditor-General of South Africa Registered Auditors |

Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2014

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The reports and statements set out below comprise the financial statements presented to the Thembelihle Local Municipality's Council:

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Abbreviations

| | |
|---------|--|
| COID | Compensation for Occupational Injuries and Diseases |
| DBSA | Development Bank of South Africa |
| SA GAAP | South African Statements of Generally Accepted Accounting Practice |
| GRAP | Generally Recognised Accounting Practice |
| GAMAP | Generally Accepted Municipal Accounting Practice |
| HDF | Housing Development Fund |
| IAS | International Accounting Standards |
| IMFO | Institute of Municipal Finance Officers |
| IPSAS | International Public Sector Accounting Standards |
| ME's | Municipal Entities |
| MEC | Member of the Executive Council |
| FMG | Finance Management Grant |
| MSIG | Municipal System Improvement Grant |
| CoGTA | Department of Co-operative Governance & Traditional Affairs |

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and were given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2015 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality's operations depend on a number of sources of revenue ranging from National Government to its own sources and donations. There are no signs or indications that any of these sources will be significantly curtailed. As such, the annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and they will be presented based on their review.

The financial statements set out on pages 8 to 72, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2014.

Accounting Officer
Designation

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2014.

1. Review of activities

Main business and operations

The municipality is engaged in provision of municipal services in terms of the Municipal Finance Management Act no.56 of 2003 and Municipal Systems Act No.32 of 2000. and operates principally in South Africa.

The operating results for the year were satisfactory for the following reasons:

- (a) The municipality recorded a net deficit of R8 023 340 (2013: surplus R14 209 250)
- (b) The municipality's contribution towards total income remained almost constant.

Proportion of income generated/raised

2014

| Type of Income | Proportion of contribution to income | Amount |
|----------------------|--------------------------------------|------------|
| Property rates | 4 % | 2 093 143 |
| Service charges | 29 % | 14 346 904 |
| Grants and subsidies | 59 % | 28 781 474 |
| Other Income | 7 % | 3 456 154 |
| Fines | 1 % | 465 797 |

2013

| Type of Income | Proportion of contribution to income | Amount |
|----------------------|--------------------------------------|------------|
| Property Rates | 4 % | 2 332 841 |
| Service charges | 22 % | 15 056 590 |
| Grants and subsidies | 69 % | 47 222 770 |
| Other Income | 4 % | 2 996 855 |
| Fines | 1 % | 717 256 |

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

As indicated to earlier on, the ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continues to procure funding for its on-going operations.

3. Subsequent events

The Council approved the write off of all amounts that were outstanding for irregular, fruitless and wasteful and unauthorised expenditure as at 30 June 2013.

4. Accounting Officer & Other Relevant Officials's interest in contracts

The municipality has a policy relating to declaration of interest in contracts and other related transactions. This was adhered to in that relevant officials with interests in SCM related transactions declared (both potential and existing) declared their interests.

5. Accounting policies

The annual financial statements were prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP Reporting Framework) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

Accounting Officer's Report

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

| | |
|---------------|---------------|
| Name | Nationality |
| Mr. M. Mogale | South African |

7. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all his activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The accounting officer discuss the responsibilities of management in this respect, at Council meetings and monitor the municipality's compliance with the code on a regular basis.

Council

The Council:

- retains full control over the municipality, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;

Remuneration

The upper limits of the remuneration of the councillors are determined in terms of the Government Notices issued by the Minister of Co-operative Governance and Traditional Affairs, as required of him by the Remunerations of Public Office Bearers Act No. 20 of 1998.

Committee meetings

The accounting officer meets on a regular basis with the Mayor and Chairpersons of Portfolio Committees.

Portfolio Committee Chairpersons have access to all members of management (Section 57 Managers) of the municipality.

Audit and risk committee

The Chairperson of the audit committee is an independent audit committee member. The committee met on a regular basis during the financial year to review matters necessary to fulfil its role.

In terms of Section 166 of the Municipal Finance Management Act, Pixley Ka Seme District Municipality must appoint members of the shared Audit Committee. Thus, more information with regards to the composition of the shared audit committee, its operations and sub-committees will be covered in the district municipality's' annual financial statements.

Internal audit

The municipality has a shared internal audit function, based at the district municipality (as highlighted above). This is in compliance with the Municipal Finance Management Act, 2003, as it is a permitted arrangement.

8. Bankers

The municipality changed its bankers from ABSA to Standard Bank during the current year .

9. Auditors

Auditor-General of South Africa will continue to audit the books of the municipality into the foreseeable future.

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Accounting Officer's Report

10. Senior Management Changes

The municipality appointed a new Chief Financial Officer from the 1st of April 2014. The Manager of Corporate Services resigned with effect from the 1st of July 2014.

11. Non compliance with applicable legislation

Significant non-compliance with various legislations have been properly disclosed in the notes to the financial statements.

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Statement of Financial Position as at 30 June 2014

| Figures in Rand | Note(s) | 2014 | 2013 (Restated) |
|--|---------|--------------------|--------------------|
| ASSETS | | | |
| Current Assets | | | |
| Inventories | 7 | 144 939 | 130 945 |
| Receivables from non-exchange transactions | 9 | 184 814 | 86 255 |
| VAT receivable | 10 | 2 187 468 | 913 162 |
| Consumer debtors from exchange transactions | 11 | 1 329 766 | 1 579 836 |
| Cash and cash equivalents | 12 | 8 406 033 | 6 662 327 |
| | | 12 253 020 | 9 372 525 |
| Non-Current Assets | | | |
| Investment property | 2 | 5 432 803 | 5 432 803 |
| Property, plant and equipment | 3 | 190 093 965 | 189 015 869 |
| Intangible assets | 4 | 278 294 | 393 750 |
| Long Term Debtors | | 941 031 | 1 907 038 |
| | | 196 746 093 | 196 749 460 |
| Non-Current Assets | | 196 746 093 | 196 749 460 |
| Current Assets | | 12 253 020 | 9 372 525 |
| Non-current assets held for sale (and) (assets of disposal groups) | | - | - |
| TOTAL ASSETS | | 208 999 113 | 206 121 985 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Other Interest Bearing Liabilities | 15 | 60 552 | 70 874 |
| Finance lease obligation | 16 | 656 844 | 561 931 |
| Trade and other payables (exchange transaction) | 20 | 18 609 309 | 15 494 395 |
| Consumer deposits | 21 | 390 819 | 493 715 |
| Retirement benefit obligation | 6 | 165 000 | 589 000 |
| Unspent conditional grants | 17 | 11 620 201 | 7 269 148 |
| Provisions | 18 | 6 495 026 | 6 032 320 |
| Third Party Collections | 19 | 1 390 001 | 1 390 001 |
| Accrued Bonus | | 399 588 | 283 606 |
| Accrued Leave | | 952 715 | 667 957 |
| | | 40 740 055 | 32 852 947 |
| Non-Current Liabilities | | | |
| Other Interest Bearing Liabilities | 15 | 5 537 753 | 5 597 221 |
| Finance lease obligation | 16 | 620 901 | 1 241 698 |
| Retirement benefit obligation | 6 | 3 604 000 | 5 286 000 |
| Provisions | 18 | 743 000 | 392 111 |
| | | 10 505 654 | 12 517 030 |
| Non-Current Liabilities | | 10 505 654 | 12 517 030 |
| Current Liabilities | | 40 740 055 | 32 852 947 |
| Liabilities of disposal groups | | - | - |
| TOTAL LIABILITIES | | 51 245 709 | 45 369 977 |
| Assets | | 208 999 113 | 206 121 985 |
| LIABILITIES | | (51 245 709) | (45 369 977) |
| NET ASSETS | | 157 753 404 | 160 752 008 |

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Statement of Financial Position as at 30 June 2014

| Figures in Rand | Note(s) | 2014 | 2013 |
|-------------------------|---------|--------------------|--------------------|
| NET ASSETS | | | |
| Reserves | | | |
| Revaluation reserve | 13 | 31 453 356 | 31 538 206 |
| Accumulated surplus | | 126 300 048 | 129 213 802 |
| Total Net Assets | | 157 753 404 | 160 752 008 |

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Statement of Financial Performance

| Figures in Rand | Note(s) | 2014 | 2013 |
|---------------------------------------|---------|---------------------|---------------------|
| Revenue | | | |
| Rendering of services | | 14 346 904 | 15 064 161 |
| Rental of facilities and equipment | | 306 078 | 416 563 |
| Interest received on accounts | | 669 042 | 1 771 784 |
| Licences and permits | | 21 773 | 26 282 |
| Property rates | | 2 093 143 | 2 332 841 |
| Fines | | 465 797 | 717 256 |
| Informal Settlement Rates | | 195 706 | 104 750 |
| Government grants & subsidies | | 28 781 474 | 47 222 770 |
| | 22 | 46 879 917 | 67 656 407 |
| | | 46 879 917 | 67 656 407 |
| | | - | - |
| Other income | | | |
| Building Plans | | 13 491 | 10 262 |
| Commissions received | | 263 969 | 35 587 |
| Departmental Electricity | | 833 908 | 219 231 |
| Insurance Claims | | 63 858 | 81 069 |
| Graves | | 7 991 | 10 338 |
| SETA | | 38 827 | 54 637 |
| Other income | | 39 279 | 27 925 |
| Miscellaneous Income | | 9 294 | 14 021 |
| Connection Fees | | 28 283 | 14 613 |
| Tender Fees | | 73 543 | 775 |
| Proceeds from scrapped assets | | 231 288 | - |
| Interest received | 32 | 659 824 | 224 842 |
| | | 2 263 555 | 693 300 |
| | | (56 202 077) | (53 837 533) |
| Expenses (Refer to page 10) | | (56 202 077) | (53 837 533) |
| | | 46 879 917 | 67 656 407 |
| | | 2 263 555 | 693 300 |
| | | (56 202 077) | (53 837 533) |
| Operating (deficit) surplus | 28 | (7 058 605) | 14 512 174 |
| Finance costs | 35 | (964 735) | (877 763) |
| Profit (loss) before taxation | | (8 023 340) | 13 634 411 |
| Taxation | | - | - |
| (Deficit) surplus for the year | | (8 023 340) | 13 634 411 |

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Statement of Financial Performance

| Figures in Rand | Note(s) | 2014 | 2013 |
|--|---------|---------------------|---------------------|
| Operating expenses | | | |
| Advertising | | (154 617) | (120 052) |
| Auditors remuneration | 36 | (1 284 284) | (1 573 590) |
| Bank charges | | (90 130) | (134 439) |
| TVS | | (764 347) | (110 964) |
| Bulk purchases | | (9 788 944) | (8 981 801) |
| Departmental electricity | | (595 850) | (330 809) |
| Water Samples | | (212 631) | (48 093) |
| Community development and training | | (174 194) | (131 725) |
| IT expenses | | (290 046) | (271 030) |
| Consulting and professional fees | | (1 328 080) | (479 935) |
| Depreciation, amortisation and impairments | | (15 525 220) | (16 235 850) |
| Donations | | (15 555) | - |
| Employee costs | | (17 519 630) | (17 083 091) |
| Entertainment | | (22 175) | (118 000) |
| SETA Levy | | (180 200) | (205 879) |
| Office expenditure | | (34 836) | (27 203) |
| Assurance | | (460 294) | (158 427) |
| Workman's compensation | | - | (3 065) |
| Hire | | (18 000) | - |
| Insurance | | (39 535) | (43 698) |
| Interest on Finance lease | | (32 588) | (22 920) |
| Legal expenses | | (494 337) | (200 110) |
| Scrapped assets | | - | (50 712) |
| Other expenses | | (113 178) | (559 787) |
| Petrol and oil | | (589 030) | (564 900) |
| Subsistence and travelling | | (1 357 731) | (1 192 825) |
| Printing and stationery | | (330 199) | (439 202) |
| Refuse | | (110 088) | (218 503) |
| Repairs and maintenance | | (1 901 859) | (1 900 027) |
| Railage & travelling costs | | (5 284) | (4 105) |
| Surveying Fees | | (880 082) | (2 725) |
| Security clothing | | (56 992) | (48 520) |
| Telephone and fax | | (697 481) | (456 642) |
| Indegent support | | (6 600) | (11 800) |
| Training | | (277 751) | (14 911) |
| Grant expenditure | | (684 955) | (2 051 564) |
| Motor Registrations | | (165 354) | (40 629) |
| | | (56 202 077) | (53 837 533) |

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Statement of Changes in Net Assets

| Figures in Rand | Revaluation reserve | Accumulated surplus | Total net assets |
|---|------------------------|------------------------|---------------------|
| Opening balance as previously reported | 31 623 056 | 128 436 772 | 160 059 828 |
| Adjustments | | | |
| Prior year adjustments | - | 1 505 103 | 1 505 103 |
| Restated Balance as at 01 July 2012 | 31 623 056 | 129 941 875 | 161 564 931 |
| Changes in net assets | | | |
| Surplus for the year | - | 13 634 411 | 13 634 411 |
| Transfer of Reserve to Income Statement | (84 850) | - | (84 850) |
| Total changes | (84 850) | 13 634 411 | 13 549 561 |
| Opening balance as previously reported | 31 538 206 | 143 576 286 | 175 114 492 |
| Adjustments | | | |
| Prior year adjustments | - | (14 362 484) | (14 362 484) |
| Balance at 01 July 2013 as restated | 31 538 206 | 129 213 802 | 160 752 008 |
| Changes in net assets | | | |
| Surplus for the year | - | (8 023 340) | (8 023 340) |
| Transfer of Reserve to Income Statement | (84 850) | - | (84 850) |
| Prior Year Adjustments Adjusted in Current Year | - | 5 109 586 | 5 109 586 |
| Total changes | (84 850) | (2 913 754) | (2 998 604) |
| Balance at 30 June 2014 | 31 453 356 | 126 300 048 | 157 753 404 |
| Note(s) | 13 | | |

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Cash Flow Statement

| Figures in Rand | Note(s) | 2014 | 2013 |
|---|-----------|---------------------|---------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| Sale of goods and services | | 15 840 809 | 19 366 217 |
| Grants | | 33 132 527 | 50 409 009 |
| Investment Income | | 659 824 | 224 842 |
| Fines | | 195 706 | 104 750 |
| Other Income | | 2 738 570 | 3 060 552 |
| Other Cash Received | | 6 944 204 | - |
| | | 59 511 640 | 73 165 370 |
| Payments | | | |
| Employee costs | | (18 828 221) | (16 941 434) |
| Suppliers | | (25 845 861) | (20 839 819) |
| Finance costs | | (830 390) | (715 916) |
| Other payments | | - | (2 287 633) |
| | | (45 504 472) | (40 784 802) |
| Total receipts | | 59 511 640 | 73 165 370 |
| Total payments | | (45 504 472) | (40 784 802) |
| Net cash flows from operating activities | 38 | 14 007 168 | 32 380 568 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 3 | (11 696 392) | (28 105 153) |
| Proceeds from sale of property, plant and equipment | 3 | 185 688 | - |
| Purchase of other intangible assets | 4 | (22 739) | (396 479) |
| Net cash flows from investing activities | | (11 533 443) | (28 501 632) |
| Cash flows from financing activities | | | |
| Repayment of other interest bearing liabilities | | (69 790) | (66 477) |
| Finance lease payments | | (660 229) | (216 279) |
| Net cash flows from financing activities | | (730 019) | (282 756) |
| Net increase/(decrease) in cash and cash equivalents | | 1 743 706 | 3 596 180 |
| Cash and cash equivalents at the beginning of the year | | 6 662 327 | 3 066 147 |
| Cash and cash equivalents at the end of the year | 12 | 8 406 033 | 6 662 327 |

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--|--------------------|-------------|--------------|--|---|-----------|
|--|--------------------|-------------|--------------|--|---|-----------|

Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

| | | | | | |
|---|-------------------|---|-------------------|-------------------|--------------------|
| Service charges | 16 248 740 | - | 16 248 740 | 14 340 599 | (1 908 141) |
| Rendering of services | 4 000 | - | 4 000 | 6 305 | 2 305 |
| Rental of facilities and equipment | 464 220 | - | 464 220 | 306 078 | (158 142) |
| Interest received (trading) | 2 478 564 | - | 2 478 564 | 669 042 | (1 809 522) |
| Licences and permits | 19 036 | - | 19 036 | 21 773 | 2 737 |
| Fees earned | 21 038 | - | 21 038 | 13 491 | (7 547) |
| Commissions received | 38 334 | - | 38 334 | 263 969 | 225 635 |
| Royalties received | 361 364 | - | 361 364 | 833 908 | 472 544 |
| Rental income | 24 386 | - | 24 386 | 63 858 | 39 472 |
| Discount received | 7 386 | - | 7 386 | 7 991 | 605 |
| Recoveries | 31 924 | - | 31 924 | 38 827 | 6 903 |
| Other income | 36 547 | - | 36 547 | 39 279 | 2 732 |
| Miscellaneous income | 8 786 | - | 8 786 | 9 294 | 508 |
| Connection fees | 276 404 | - | 276 404 | 333 114 | 56 710 |
| Interest received - investment | 327 100 | - | 327 100 | 659 824 | 332 724 |
| Total revenue from exchange transactions | 20 347 829 | - | 20 347 829 | 17 607 352 | (2 740 477) |

Revenue from non-exchange transactions

Revenue

| | | | | | |
|---|-------------------|---|-------------------|-------------------|---------------------|
| Property rates | 3 208 347 | - | 3 208 347 | 2 093 143 | (1 115 204) |
| Fines | 1 020 084 | - | 1 020 084 | 465 797 | (554 287) |
| Miscellaneous Income | 210 772 | - | 210 772 | 195 706 | (15 066) |
| Government grants & subsidies | 38 475 282 | - | 38 475 282 | 28 781 474 | (9 693 808) |
| Total revenue from non-exchange transactions | 42 914 485 | - | 42 914 485 | 31 536 120 | (11 378 365) |

| | | | | | |
|--|-------------------|---|-------------------|-------------------|---------------------|
| 'Total revenue from exchange transactions' | 20 347 829 | - | 20 347 829 | 17 607 352 | (2 740 477) |
| 'Total revenue from non-exchange transactions' | 42 914 485 | - | 42 914 485 | 31 536 120 | (11 378 365) |
| Total revenue | 63 262 314 | - | 63 262 314 | 49 143 472 | (14 118 842) |

Expenditure

| | | | | | |
|--|---------------------|---|---------------------|---------------------|--------------------|
| Personnel | (17 428 085) | - | (17 428 085) | (15 586 856) | 1 841 229 |
| Remuneration of councillors | (2 228 477) | - | (2 228 477) | (1 932 774) | 295 703 |
| Depreciation and amortisation | (3 695 904) | - | (3 695 904) | (10 756 489) | (7 060 585) |
| Impairment loss/ Reversal of impairments | (8 250 800) | - | (8 250 800) | (4 768 731) | 3 482 069 |
| Finance costs | 286 118 | - | 286 118 | (964 735) | (1 250 853) |
| Repairs and maintenance | (1 188 942) | - | (1 188 942) | (1 901 859) | (712 917) |
| Bulk purchases | (6 658 646) | - | (6 658 646) | (9 788 944) | (3 130 298) |
| General Expenses | (10 413 521) | - | (10 413 521) | (11 466 424) | (1 052 903) |
| Total expenditure | (49 578 257) | - | (49 578 257) | (57 166 812) | (7 588 555) |

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--|--------------------|-------------|-------------------|--|---|-----------|
| Figures in Rand | | | | | | |
| | 13 684 057 | - | 13 684 057 | (8 023 340) | (21 707 397) | |
| | - | - | - | - | - | |
| Deficit before taxation | 13 684 057 | - | 13 684 057 | (8 023 340) | (21 707 397) | |
| Surplus before taxation | 13 684 057 | - | 13 684 057 | (8 023 340) | (21 707 397) | |
| Taxation | - | - | - | - | - | |
| Actual Amount on Statement of Comprehensive Income | 13 684 057 | - | 13 684 057 | (8 023 340) | (21 707 397) | |
| Reconciliation | | | | | | |
| Basis difference | | | | | | |
| Revenue from Non Exchange Transactions | | | | 11 378 365 | | 0 |
| Revenue from Exchange Transactions | | | | 2 740 477 | | |
| Total Expenditure | | | | 7 588 555 | | |
| Amount in the Budget Statement of Financial Performance | | | | 13 684 057 | | |

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--|--------------------|-------------|--------------|--|---|-----------|
|--|--------------------|-------------|--------------|--|---|-----------|

Figures in Rand

Statement of Financial Position

ASSETS

Current Assets

| | | | | | | |
|--|-------------------|----------|-------------------|-------------------|---------------------|--|
| Inventories | 75 000 | - | 75 000 | 144 939 | 69 939 | |
| Current Portion of Long Term Receivable | 3 125 000 | - | 3 125 000 | - | (3 125 000) | |
| Receivables from non-exchange transactions | 3 362 000 | - | 3 362 000 | 184 814 | (3 177 186) | |
| VAT receivable | - | - | - | 2 187 468 | 2 187 468 | |
| Consumer debtors | 19 964 000 | - | 19 964 000 | 1 329 766 | (18 634 234) | |
| Cash and cash equivalents | 6 793 000 | - | 6 793 000 | 8 406 033 | 1 613 033 | |
| | 33 319 000 | - | 33 319 000 | 12 253 020 | (21 065 980) | |

Non-Current Assets

| | | | | | | |
|-------------------------------|--------------------|----------|--------------------|--------------------|---------------------|--|
| Investment property | 3 739 000 | - | 3 739 000 | 5 432 803 | 1 693 803 | |
| Property, plant and equipment | 217 800 000 | - | 217 800 000 | 190 093 965 | (27 706 035) | |
| Intangible assets | 15 000 | - | 15 000 | 278 294 | 263 294 | |
| Long Term Debtors | - | - | - | 941 031 | 941 031 | |
| | 221 554 000 | - | 221 554 000 | 196 746 093 | (24 807 907) | |

| | | | | | | |
|--|--------------------|----------|--------------------|--------------------|---------------------|--|
| Non-Current Assets | 33 319 000 | - | 33 319 000 | 12 253 020 | (21 065 980) | |
| Current Assets | 221 554 000 | - | 221 554 000 | 196 746 093 | (24 807 907) | |
| Non-current assets held for sale (and) (assets of disposal groups) | - | - | - | - | - | |
| TOTAL ASSETS | 254 873 000 | - | 254 873 000 | 208 999 113 | (45 873 887) | |

LIABILITIES

Current Liabilities

| | | | | | | |
|---|-------------------|----------|-------------------|-------------------|-------------------|--|
| Other Interest Bearing Liabilities | 80 000 | - | 80 000 | 60 552 | (19 448) | |
| Finance lease obligation | - | - | - | 656 844 | 656 844 | |
| Trade and other payables (exchange transaction) | 19 100 000 | - | 19 100 000 | 18 609 309 | (490 691) | |
| Consumer deposits | 358 000 | - | 358 000 | 390 819 | 32 819 | |
| Retirement benefit obligation | - | - | - | 165 000 | 165 000 | |
| Unspent conditional grants | - | - | - | 11 620 201 | 11 620 201 | |
| Provisions | 754 000 | - | 754 000 | 6 495 026 | 5 741 026 | |
| Third Party Collections | - | - | - | 1 390 001 | 1 390 001 | |
| Accrued Bonus | - | - | - | 399 588 | 399 588 | |
| Accrued Leave | - | - | - | 952 715 | 952 715 | |
| | 20 292 000 | - | 20 292 000 | 40 740 055 | 20 448 055 | |

Non-Current Liabilities

| | | | | | | |
|------------------------------------|-------------------|----------|-------------------|-------------------|--------------------|--|
| Other Interest Bearing Liabilities | 5 542 000 | - | 5 542 000 | 5 537 753 | (4 247) | |
| Finance lease obligation | - | - | - | 620 901 | 620 901 | |
| Retirement benefit obligation | - | - | - | 3 604 000 | 3 604 000 | |
| Provisions | 11 118 000 | - | 11 118 000 | 743 000 | (10 375 000) | |
| | 16 660 000 | - | 16 660 000 | 10 505 654 | (6 154 346) | |
| | 20 292 000 | - | 20 292 000 | 40 740 055 | 20 448 055 | |
| | 16 660 000 | - | 16 660 000 | 10 505 654 | (6 154 346) | |

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--|--------------------|-------------|---------------------|--|---|-----------|
| Figures in Rand | | | | | | |
| TOTAL LIABILITIES | 36 952 000 | - | 36 952 000 | 51 245 709 | 14 293 709 | |
| Assets | 254 873 000 | - | 254 873 000 | 208 999 113 | (45 873 887) | |
| LIABILITIES | (36 952 000) | - | (36 952 000) | (51 245 709) | (14 293 709) | |
| NET ASSETS | 217 921 000 | - | 217 921 000 | 157 753 404 | (60 167 596) | |
| NET ASSETS | | | | | | |
| Net Assets Attributable to Owners of Controlling Entity | | | | | | |
| Reserves | | | | | | |
| Revaluation reserve | 31 649 000 | - | 31 649 000 | 31 453 356 | (195 644) | |
| Accumulated surplus | 186 273 000 | - | 186 273 000 | 126 300 046 | (59 972 954) | |
| Total Net Assets | 217 922 000 | - | 217 922 000 | 157 753 402 | (60 168 598) | |

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--|--------------------|-------------|--------------|--|---|-----------|
|--|--------------------|-------------|--------------|--|---|-----------|

Figures in Rand

Cash Flow Statement

Cash flows from operating activities

Receipts

| | | | | | |
|----------------------------|-------------------|---|-------------------|-------------------|--------------------|
| Sale of goods and services | 19 940 000 | - | 19 940 000 | 15 840 809 | (4 099 191) |
| Grants | 38 485 000 | - | 38 485 000 | 33 132 527 | (5 352 473) |
| Interest income | 1 616 000 | - | 1 616 000 | 659 824 | (956 176) |
| Other receipts | - | - | - | 2 738 570 | 2 738 570 |
| Other cash item | - | - | - | 7 139 910 | 7 139 910 |
| | 60 041 000 | - | 60 041 000 | 59 511 640 | (529 360) |

Payments

| | | | | | |
|-------------------------|---------------------|---|---------------------|---------------------|--------------------|
| Suppliers and Employees | (39 547 000) | - | (39 547 000) | (44 674 082) | (5 127 082) |
| Finance costs | (398 000) | - | (398 000) | (830 390) | (432 390) |
| Transfers and Grants | (1 101 000) | - | (1 101 000) | - | 1 101 000 |
| | (41 046 000) | - | (41 046 000) | (45 504 472) | (4 458 472) |

| | | | | | |
|---|-------------------|---|---------------------|-------------------|--------------------|
| Total receipts | 60 041 000 | - | 60 041 000 | 59 511 640 | (529 360) |
| Total payments | (41 046 000) | - | (41 046 000) | (45 504 472) | (4 458 472) |
| Net cash flows from operating activities | 18 995 000 | - | 18 995 000 | 14 007 168 | (4 987 832) |

Cash flows from investing activities

| | | | | | |
|---|---------------------|---|---------------------|---------------------|------------------|
| Purchase of property, plant and equipment | (13 559 000) | - | (13 559 000) | (11 696 392) | 1 862 608 |
| Proceeds from sale of property, plant and equipment | - | - | - | 185 688 | 185 688 |
| Purchase of other intangible assets | - | - | - | (22 739) | (22 739) |
| Net cash flows from investing activities | (13 559 000) | - | (13 559 000) | (11 533 443) | 2 025 557 |

Cash flows from financing activities

| | | | | | |
|---|-----------------|---|-----------------|------------------|------------------|
| Consumer Deposits | 50 000 | - | 50 000 | - | (50 000) |
| Borrowings | (80 000) | - | (80 000) | (69 790) | 10 210 |
| Finance Lease Payments | - | - | - | (660 229) | (660 229) |
| Net cash flows from financing activities | (30 000) | - | (30 000) | (730 019) | (700 019) |

| | | | | | |
|---|-------------------|---|-------------------|------------------|--------------------|
| Net increase/(decrease) in cash and cash equivalents | 5 406 000 | - | 5 406 000 | 1 743 706 | (3 662 294) |
| Cash and cash equivalents at the beginning of the year | 6 793 000 | - | 6 793 000 | 6 662 327 | (130 673) |
| Cash and cash equivalents at the end of the year | 12 199 000 | - | 12 199 000 | 8 406 033 | (3 792 967) |

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---------------------------------------|--------------------|-------------|--------------|--|---|-----------|
| Figures in Rand | | | | | | |
| Reconciliation | | | | | | |
| Net cash from (used) operating | | | | | | |
| Receipts | | | | | | |
| Service Charges | | | | 4 099 191 | | |
| Grants | | | | 5 352 473 | | |
| Interest | | | | 956 176 | | |
| Other Income | | | | (9 878 480) | | |
| Payments | | | | | | |
| Suppliers | | | | 5 127 082 | | |
| Finance Cost | | | | 432 390 | | |
| Grant transfers | | | | (1 101 000) | | |
| Investing | | | | | | |
| PPE Purchase | | | | (1 862 608) | | |
| PPE Proceeds | | | | (185 688) | | |
| Intangibles | | | | 22 739 | | |
| Financing | | | | | | |
| Borrowings Repayments | | | | (10 210) | | |
| Consumer deposits | | | | 50 000 | | |
| Finance Lease Payments | | | | 660 229 | | |
| Net cash from (used) investing | | | | | | |
| Amount Brought Forward | | | | | | |
| Difference | | | | 130 673 | | |
| Amount per Budget Cashflow | | | | 12 199 000 | | |

Accounting Policies

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

1.1 Statements and Interpretations Not Yet Effective

GRAP Standards

At the date of authorisation of these Annual Financial Statements, the following standards and interpretations were in issue but not yet effective and have not been early adopted by the municipality:

- GRAP 25 - Employee Benefits;
- GRAP 20 - Related Party Disclosures;
- GRAP 105 - Transfer of Functions Between Entities Under Common Control;
- GRAP 106 - Transfer of Functions Between Entities Not Under Common Control;
- GRAP 107 - Mergers;
-

Regarding GRAP 105, 106, 107, 20 and 25, there are not effective dates as yet as the Minister of Finance has not yet determined the effective dates. The nature of the impending changes, when the municipality intends to adopt them and the likely impact on the financial statements will be discussed or determined when the Minister of Finance determines the effective date.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts presented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period or in the period of the revision and future periods if the revision affects both the current and future periods.

In the process of applying the municipality's policies, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements and these are consistent with the previous period:

Impairment of trade and other receivables

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per debtor per service.

Allowance for slow moving, damaged and obsolete inventory

An allowance for inventory to write inventory down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note26

Provisions and contingent liabilities

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

Accounting Policies

1.2 Transfer of functions between entities under common control (continued)

Post -retirement medical aid benefit

The cost of post-retirement medical aid benefit is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Additional information is disclosed in Note 6.

Additional information is disclosed in Note 6.

Classification as investment property

The municipality has reviewed its property portfolio and determined which items of land and buildings are held to earn rental revenue or for capital appreciation. Land and buildings fulfilling these requirements have been classified as investment property, whilst the remainder of the portfolio have either been classified as property, plant and equipment or inventory depending on management's intention in dealing with these properties.

Depreciation and the carrying value of items of property, plant and equipment

The estimation of the useful lives of assets is based on management's judgement. Management considers the impact of technology, availability of capital funding, service requirements, and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and what their condition will be at that time.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Accounting Policies

1.3 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measure that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity apply the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

1.4 Property, plant and equipment

Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located. Subsequent to initial recognition, land and buildings are carried at a revalued amount based on municipal valuations, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed by external independent valuers with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the Statement of Financial Position date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. Subsequently all property plant and equipment, excluding land and building and including for Infrastructure Assets, are measured at cost, less accumulated depreciation and accumulated impairment losses.

Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified.

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery of the assets are enhanced in excess of the originally assessed standard of performance. If the expenditure only restores the originally assessed standard of performance, it is regarded as repairs and maintenance, and is expensed.

The municipality maintains and acquires assets to provide a social service to the community, with no intention of disposing of the assets for any economic gain, and thus no residual values are determined other than for motor vehicles.

The gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value, and is recognised in the Statement of Financial Performance.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Assets held under finance leases are depreciated over their useful lives on the same basis as owned assets or, where appropriate, the term of the relevant lease, and are recognised in the Statement of Financial Performance.

Assets under construction are carried at cost. Depreciation of an asset commences when the asset is ready for its intended use.

Accounting Policies

1.4 Property, plant and equipment (continued)

The depreciation rates are based on the following estimated useful lives:

| <u>Item</u> | <u>Average useful life (years)</u> |
|--------------------------------------|---|
| Land and buildings | |
| • Land | Not applicable |
| Infrastructure | |
| • Roads and Paving | 45-50 |
| • Electricity | 45-50 |
| • Water | 15 - 100 |
| • Sewerage | 15 - 100 |
| • Land fill sites | 10-65 |
| Community | |
| • Buildings | 30-100 |
| • Recreational facilities | 15-60 |
| • Security | 5 |
| Other | |
| • Specialised plant and equipment | 10-15 |
| • Specialist vehicles | 5 - 20 |
| • Other vehicles | 5 - 10 |
| • Office equipment | 3 - 7 |
| • Furniture and fittings | 7 - 10 |
| • Landfill sites | 10-65 |
| • Water craft | 15 |
| • Bins and containers | 5 |
| • Other items of plant and equipment | 2-5 |

Accounting Policies

1.4 Property, plant and equipment (continued)

Impairment of property, plant and equipment

Property, plant and equipment are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment charged to the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of impairment is recognised in the Statement of Financial Performance.

1.5 Intangible assets

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

| <u>Item</u> | <u>Useful life</u> |
|--------------------------|---------------------------|
| Computer software, other | 3 years |
| Other intangible assets | 3 years |

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.6 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Accounting Policies

1.6 Heritage assets (continued)

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

1.7 Financial instruments

Classification

Financial instruments are recognised when the municipality becomes party to the contractual provisions of the instrument and are initially measured at fair value plus, in the case of a financial asset or liability, not at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability. The municipality classifies financial assets and financial liabilities into the following categories:

- Financial assets and liabilities at fair value through surplus or deficit
- Financial assets and liabilities at amortised cost .
- Financial Assets and Liabilities at cost

Classification depends on the purpose for which the financial instruments were obtained/incurred and takes place at initial recognition. Classification is re-assessed on an annual basis.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit include dividends and interest.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Financial instruments at cost are subsequently measured at the initial recognition amount.

Financial instruments at amortised cost are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Accounting Policies

1.7 Financial instruments (continued)

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Financial instruments designated as at fair value through surplus or deficit

The municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit. Interest is charged on overdue amounts.

Amounts receivable within 12 months from the date of reporting are classified as current.

Trade and other receivables are classified as loans and receivables.

Accounting Policies

1.7 Financial instruments (continued)

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Liabilities for annual leave (accrued leave pay) and annual bonus are recognised as they accrue to employees. Accrual is based on the potential liability of the municipality. Liabilities for goods and services rendered to the municipality before year end are accrued on management's estimate if the invoice or statement have not been issued.

Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments that are readily convertible to a known amount of cash and are held with registered banking institutions with maturities of three months or less. They are subject to an insignificant risk of changes in value.

For purposes of the Cash Flow Statement, cash and cash equivalents comprise cash on hand and deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables. Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position. Cash and cash equivalents and bank borrowings are subsequently recorded at amortised cost.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Financial liabilities and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

Financial assets are recognised when the rights to receive cash flows from the assets have expired or have been transferred and the municipality has transferred substantially all risks and rewards of ownership, or when the enterprise loses control of contractual rights that comprise the assets. Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled or expire

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Accounting Policies

1.8 Leases (continued)

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.9 Inventories

Inventories consists of raw materials, water and consumables. Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is generally determined using the first-in- first-out principle except where stated otherwise.

Some of the inventory items are used for surrogating purposes. However, due to the fact that some of the components of these inventories would have been removed or faulty, the value of the inventories cannot be determined. As such these inventory items have no value attached to them.

Accounting Policies

1.9 Inventories (continued)

Unsold properties are measured at the lower of cost and net realisable value. Cost is primarily determined by reference to the valuation roll or total cost of servicing the land.

Water inventory

Water is measured at the lower of purifying cost and net realisable value, insofar as it is stored and controlled in reservoirs and pipe network at year end.

Readings of water levels are taken at year-end, which is quantified at the above value.

1.10 Going concern assumptions

The annual financial statements have been prepared on the assumption that the municipality will continue to operate on a going concern basis for at least the next twelve months.

1.11 Incomplete Construction Work (Work In Progress)

Incomplete construction work is stated at historical costs. Historical costs relates to accumulation of capital amounts incurred to the date of commission. Depreciation will only commence when the asset is available for use, after commissioning.

1.12 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted. Liabilities relating to such benefits that are unpaid at year-end are measured at the undiscounted amount that the municipality expects to pay in exchange for that service and had accumulated at the reporting date.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of performance bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance and the obligation can be estimated reliably.

Defined contribution plans

The municipality's and its employees contributes to various pension, provident and retirement funds and its Councillors contribute to the Pension Fund for Municipal Councillors. The retirement benefit are calculated in accordance with the rules of the funds. Full actuarial valuations are performed by the relevant funds on a regular basis as per the requirement of the various funds. Current contributions are recognised in surplus or deficit in the period in which the service is rendered by the relevant employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Some of the various funds that the municipality contributes to are multi-employer defined benefit plans but they are accounted for as defined contribution plans. This is so because of the nature of these funds and the fact that the assets are not specifically associated to meet the obligations in respect of individual employers in terms of paragraph 30 of IAS 19. Thus, there is no consistent and reliable basis for allocating the obligations, plan assets and costs to individual municipalities participating in the plan. The contributions to the fund obligations for the payment of retirement benefits are expensed in the year it becomes payable. These multi-employer plans are actuarially valued annually on a national or provincial basis, using the projected unit credit method. Deficits, if any, are recovered through lumpsum payments or increased future contributions on a proportional basis from all participating municipalities.

Accounting Policies

1.12 Employee benefits (continued)

Defined benefit plans

The cost of providing benefits is determined using the Projected Unit Credit method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses that exceed 10 per cent of the greater of the present value of the municipality's defined benefit obligation and the fair value of plan assets as at the end of the prior year are amortised over the expected average remaining working lives of the participating employees.

The municipality provides certain post-retirement medical benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of all of the medical aid funds with which the municipality is associated, a member is entitled to remain a continued member of the medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. These medical aid funds are classified as defined benefit plans.

The current service cost is recognised as a period expense in the statement of financial performance and is matched to the benefit received during the working life of the employee. the current service cost includes the expense for benefits received by the employee currently in service and the cost of funding the employee when no longer in service.

Where some of the employees are not members of any qualifying medical aid scheme as at reporting date, the municipality accrues 50% of such potential liability. This management estimate is meant to cater for employees who are likely to join the qualifying medical schemes in future but before retirement.

1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Provisions are not recognised for future operating surplus.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

Accounting Policies

1.13 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model, the related depreciation, based on the estimated useful life of the landfill site, is recognised immediately in surplus or deficit.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
 - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;

The provision (liability) is periodically discounted or interest is unwound on a yearly basis. The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.14 Revenue from exchange transactions

Revenue is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered/goods sold, the value of which approximated the consideration received or receivable.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of value added tax, trade discounts, returns and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Accounting Policies

1.14 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Interest, royalties, dividends & other income

Interest earned on investments is recognised on a time proportion basis that takes into account the effective yield on the investments. Interest earned on outstanding debtors is recognised on a time proportion basis.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service charges relating to electricity, water and sanitation are based on consumption. Meters are read and billed on a monthly basis and revenue is recognised when invoiced. Estimated consumptions are made monthly when meters have not been read. The estimates of consumption are recognised as revenue when invoiced. Adjustments to estimates of consumption are made in the invoicing period when meters have been read. These adjustments are recognised as against or for revenue in the invoicing period. .

Income from agency services: Income from agency services is recognised on a monthly basis once the income collected/received on behalf of agents has been quantified. The income is recognised in terms of the agency agreement.

1.15 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised on a monthly basis when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Revenue from rates is recognised when the legal entitlement to this revenue arises. A site rating system is applied. In terms of this system, assessment rates are levied on the land value of the property. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue. Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summons. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summons the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. By nature, a reliable estimate cannot be made of revenue from summons and spot fines. The revenue from fines is therefore recognised when the public prosecutor or ticketed person pays over to the entity the cash actually collected on summons and/or spot fines (on receipt basis).

Levies

Levies are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:

- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

Unconditional grants and receipts

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available, which in most cases is on receipt.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Donations and contributions

Revenue from donations is recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- any restrictions associated with the donation have been met

Revenue from donations is measured at the fair value of the consideration received or receivable which is the cash amount received or where the donation is in the form of property, plant and equipment, the fair value of the property, plant and equipment received or receivable.

1.16 Value Added Tax

The municipality accounts for Value Added Tax (VAT) on a cash basis. The municipality is liable to account for VAT at the standard rate of 14% in terms of section 7(1)(a) of the VAT Act in respect of supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

1.17 Pre-paid electricity

Revenue from the sale of electricity using pre-paid meter cards is recognised based on consumption.

The consumption is determined on the following trend analysis:

- During the winter season (May, June, July and August), the municipality tend to sell more units as the temperatures will be generally low.
- The municipality calculates the average sales for the four months. The resultant average units are compared to the sales for May and August for reasonableness. If the average sales in units are within a reasonable range or threshold of the May and August sales, the average is deemed reasonable. If it is not within the reasonable range obtained for the two months, reasons for the significant variances are obtained and accounted for in appropriately, which may be in the form of an adjustment to the revenue for pre-paid electricity. Thus, exceptional items are adjusted for.
- The resultant reasonable average consumption rate is used as an estimate for the consumption of pre-paid electricity for the month of June. The actual units sold in June are then compared to the estimated consumption for June.

If the actual quantity sold is more than the estimated consumption for June, pre-paid electricity revenue sales for June is then based on the estimated consumption units and the excess is deferred to July of the ensuing period.

Accounting Policies

1.17 Pre-paid electricity (continued)

If the actual quantity sold in June is less than the estimated consumption for June, pre-paid electricity for June is then based on the actual units sold.

1.18 Borrowing costs

1.19 Comparative figures

When the presentation or classification of items in the financial statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification is disclosed.

Where accounting errors have been identified in the current financial year, the correction is made retrospectively as far as it is practical and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as it is practical and the prior year comparatives are restated accordingly.

1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division or permitted by the MFMA.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Accounting Policies

1.22 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.23 Internal reserves

Fair Value Adjustment Reserve

The municipality recognises all fair value adjustments for its available for sale financial instruments in equity, in the Fair Value Adjustment Reserve. When a part of the available for sale instruments are derecognised, a transfer (representing the fair value adjustment realised) is made from the reserve to the statement of financial performance.

1.24 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.25 Gratuities

The municipality provides gratuities for qualifying staff members in terms of the relevant conditions of employment. The expenditure is recognised in the statement of financial performance when the gratuity is paid.

1.26 Contingent Assets and Liabilities

Contingent liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

1.27 Treatment of Administration and Other Overheads

The costs of internal support services are transferred to the various services and departments to whom resources are made available..

1.28 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.29 Segmental information

Segmental information on property, plant and equipment is set out in Appendices . Other segmental information is currently exempt.

Accounting Policies

1.30 Capital Commitments

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources. Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts are to be non-cancellable or only cancellable at significant cost contracts should relate to something other than the business of the municipality.

1.31 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2012-07-01 to 2013-06-30.

The budget for the economic entity includes all the entities approved budgets under its control.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.32 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

| Figures in Rand | 2014 | 2013 |
|-----------------|------|------|
|-----------------|------|------|

2. Investment property

| | 2014 | | | 2013 | | |
|---------------------|---------------------|---|----------------|---------------------|---|----------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Investment property | 5 432 803 | - | 5 432 803 | 5 432 803 | - | 5 432 803 |

Reconciliation of investment property - 2014

| | Opening balance | Total |
|---------------------|--------------------|-----------|
| Investment property | 5 432 803 | 5 432 803 |

Reconciliation of investment property - 2013

| | Opening balance | Total |
|-------------------------------------|--------------------|-----------|
| Investment property | 5 432 803 | 5 432 803 |
| Fair value of investment properties | 5 432 803 | 5 432 803 |

The Investment property is maintained on the fair value model. The methods used to determine the fair values are supported by market evidence. As per the Independent valuers valuation, the fair values of the Land did not change over the past year, this is mainly due to the fact that the Municipality is located in a small remote town where the majority of the property is owned by the municipality resulting in minimal property market activities .

Details of property

Investment Property

The municipality owns several properties that are held for earning rental income as well as for capital appreciation.

| | | |
|-----------|------------------|------------------|
| Buildings | 1 331 203 | 1 331 203 |
| Land | 4 041 500 | 4 041 500 |
| | 5 372 703 | 5 372 703 |

Rental Revenue

| | | |
|---------------|---------|---------|
| Rental Income | 306 078 | 416 563 |
|---------------|---------|---------|

There are no restrictions on the rental income or property and the municipality has no contractual obligations to develop, repair or purchase rental property.

An Independent Professional Valuer (Modisanyane Property Valuers) was engaged by the Municipality to determine the Values of the Property as at 30 June 2014.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand 2014 2013

3. Property, plant and equipment

| | 2014 | | | 2013 | | |
|------------------------|---------------------|---|--------------------|---------------------|---|--------------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Buildings | 30 411 000 | (1 098 806) | 29 312 194 | 30 411 000 | (1 013 956) | 29 397 044 |
| Plant and machinery | 1 517 668 | (1 268 923) | 248 745 | 1 453 018 | (1 171 697) | 281 321 |
| Furniture and fixtures | 1 364 207 | (1 109 971) | 254 236 | 1 319 853 | (952 773) | 367 080 |
| Motor vehicles | 942 700 | (487 152) | 455 548 | 942 700 | (397 373) | 545 327 |
| Office equipment | 3 387 543 | (2 140 287) | 1 247 256 | 3 306 878 | (1 496 441) | 1 810 437 |
| Emergency Equipment | 299 138 | (267 739) | 31 399 | 299 138 | (252 219) | 46 919 |
| Infrastructure | 81 074 681 | (48 189 887) | 32 884 794 | 79 801 002 | (45 158 264) | 34 642 738 |
| Community | 4 917 147 | (1 977 558) | 2 939 589 | 4 917 148 | (1 518 103) | 3 399 045 |
| Roads Network | 152 918 391 | (107 483 355) | 45 435 036 | 152 918 391 | (104 417 595) | 48 500 796 |
| Bins and containers | 6 780 | (5 987) | 793 | 6 780 | (5 527) | 1 253 |
| Work In Progress | 48 110 070 | - | 48 110 070 | 39 639 237 | - | 39 639 237 |
| Electricity Network | 18 564 484 | (10 551 897) | 8 012 587 | 17 483 817 | (10 010 612) | 7 473 205 |
| Wastewater network | 36 372 416 | (16 272 869) | 20 099 547 | 35 690 873 | (14 903 748) | 20 787 125 |
| Landfill site | 6 373 026 | (5 310 855) | 1 062 171 | 6 373 026 | (4 248 684) | 2 124 342 |
| Total | 386 259 251 | (196 165 286) | 190 093 965 | 374 562 861 | (185 546 992) | 189 015 869 |

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

| | Opening balance | Additions | Transfers | Depreciation on Cost | Depreciation on Revaluation | Total |
|------------------------|--------------------|-------------------|-------------|-------------------------|--------------------------------|--------------------|
| Land and Buildings | 29 397 044 | - | - | - | (84 850) | 29 312 194 |
| Plant and machinery | 281 321 | 64 651 | - | (97 227) | - | 248 745 |
| Furniture and fixtures | 367 080 | 44 354 | - | (157 198) | - | 254 236 |
| Motor vehicles | 545 327 | - | - | (89 779) | - | 455 548 |
| Office equipment | 1 810 437 | 80 665 | - | (643 846) | - | 1 247 256 |
| Emergency equipment | 46 919 | - | - | (15 520) | - | 31 399 |
| Water Network | 34 642 738 | 382 870 | 890 809 | (3 031 623) | - | 32 884 794 |
| Community | 3 399 045 | - | - | (459 456) | - | 2 939 589 |
| Roads Network | 48 500 796 | - | - | (3 065 760) | - | 45 435 036 |
| Bins and containers | 1 253 | - | - | (460) | - | 793 |
| Work In Progress | 39 639 237 | 10 442 308 | (1 971 475) | - | - | 48 110 070 |
| Electricity Network | 7 473 205 | - | 1 080 666 | (541 284) | - | 8 012 587 |
| Wastewater network | 20 787 125 | 681 544 | - | (1 369 122) | - | 20 099 547 |
| Land fill site | 2 124 342 | - | - | (1 062 171) | - | 1 062 171 |
| | 189 015 869 | 11 696 392 | - | (10 533 446) | (84 850) | 190 093 965 |

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3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

| | Opening balance | Additions | Disposals at Cost | Transfers | Depreciation on disposal | Depreciation on Cost | Depreciation on Revaluation | Total |
|------------------------|--------------------|-------------------|----------------------|-------------|-----------------------------|-------------------------|--------------------------------|--------------------|
| Land and Buildings | 29 481 894 | - | - | - | - | - | (84 850) | 29 397 044 |
| Plant and machinery | 511 919 | 14 524 | - | - | - | (245 122) | - | 281 321 |
| Furniture and fixtures | 567 105 | 26 289 | (1 780) | - | 1 400 | (225 934) | - | 367 080 |
| Motor vehicles | 693 715 | - | (104 300) | - | 57 050 | (101 138) | - | 545 327 |
| Office equipment | 1 913 061 | 508 132 | (28 467) | - | 25 385 | (607 674) | - | 1 810 437 |
| Emergency Equipment | 100 764 | - | - | - | - | (53 845) | - | 46 919 |
| Water Network | 35 474 788 | - | - | 2 135 694 | - | (2 967 744) | - | 34 642 738 |
| Community | 3 568 181 | - | - | - | - | (169 136) | - | 3 399 045 |
| Roads Network | 51 566 556 | - | - | - | - | (3 065 760) | - | 48 500 796 |
| Bins and containers | 2 419 | - | - | - | - | (1 166) | - | 1 253 |
| Work In Progress | 15 279 447 | 26 495 484 | - | (2 135 694) | - | - | - | 39 639 237 |
| Electricity Network | 6 910 657 | 1 060 724 | - | - | - | (498 176) | - | 7 473 205 |
| Wastewater network | 22 151 553 | - | - | - | - | (1 364 428) | - | 20 787 125 |
| Landfill sites | 3 186 513 | - | - | - | - | (1 062 171) | - | 2 124 342 |
| | 171 408 572 | 28 105 153 | (134 547) | - | 83 835 | (10 362 294) | (84 850) | 189 015 869 |

Pledged as security

There are no assets pledged as security:

Assets subject to finance lease (Net carrying amount)

| | | |
|------------------|---------|-----------|
| Office equipment | 897 671 | 1 418 356 |
|------------------|---------|-----------|

Other information - Land

The municipality is still in the process of identifying all the land that belongs to the municipality as well as land not belonging to the municipality that has been treated as municipality land. Once this process is done all land which belongs to the municipality will be accurately disclosed.

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|-----------------|------|------|
|-----------------|------|------|

3. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2014

| | Included within Infrastructure | Total |
|--------------------------------|--------------------------------|-------------------|
| Opening balance | 39 639 237 | 39 639 237 |
| Additions/capital expenditure | 10 442 308 | 10 442 308 |
| Transferred to completed items | (1 971 475) | (1 971 475) |
| | 48 110 070 | 48 110 070 |

Reconciliation of Work-in-Progress 2013

| | Included within Infrastructure | Total |
|--------------------------------|--------------------------------|-------------------|
| Opening balance | 15 279 447 | 15 279 447 |
| Additions/capital expenditure | 26 495 484 | 26 495 484 |
| Transferred to completed items | (2 135 694) | (2 135 694) |
| | 39 639 237 | 39 639 237 |

Useful lives

The useful lives of the assets have been reviewed to ensure that they more accurately reflect the actual expected life spans of the assets within the municipality. In all of the cases, the useful lives were not adjusted as they were found to be reasonable.

The municipality tested the assets (excluding those with provisional amounts) falling under the property, plant and equipment category for impairment.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Deemed cost

Deemed cost was determined using market values that were in the fixed asset register.

4. Intangible assets

| | 2014 | | | 2013 | | |
|-------------------|------------------|---|----------------|------------------|---|----------------|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software | 444 436 | (166 142) | 278 294 | 421 697 | (27 947) | 393 750 |

Reconciliation of intangible assets - 2014

| | Opening balance | Additions | Amortisation | Total |
|-------------------|-----------------|-----------|--------------|---------|
| Computer software | 393 750 | 22 739 | (138 195) | 278 294 |

Reconciliation of intangible assets - 2013

| | Opening balance | Additions | Amortisation | Total |
|--------------------------|-----------------|-----------|--------------|---------|
| Computer software, other | 14 622 | 396 479 | (17 351) | 393 750 |

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

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|-----------------|------|------|
|-----------------|------|------|

4. Intangible assets (continued)

Pledged as security

No intangible assets are pledged as security.

5. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2014

| | At Amortised Cost | Cash and Cash equivalents | Total |
|--|----------------------|------------------------------|------------------|
| Trade and other receivables | 1 329 766 | - | 1 329 766 |
| Other receivables from non-exchange transactions | 184 814 | - | 184 814 |
| Cash and cash equivalents | - | 8 406 033 | 8 406 033 |
| | 1 514 580 | 8 406 033 | 9 920 613 |

2013

| | At Amortised Cost | Cash and Cash Equivalents | Total |
|--|----------------------|------------------------------|------------------|
| Trade and other receivables | 1 579 836 | - | 1 579 836 |
| Other receivables from non-exchange transactions | 86 255 | - | 86 255 |
| Cash and cash equivalents | - | 6 662 327 | 6 662 327 |
| | 1 666 091 | 6 662 327 | 8 328 418 |

6. Employee benefit obligations

Defined benefit plan

The plan is a post employment medical benefit plan.

Post retirement medical aid plan

The municipality operates a funded post employment health care defined benefit plan for qualifying employees. Employees of the municipality are members of , LA Health, Hosmed, Bonitas, Keyhealth and SAMWUMED medical aid schemes.

The municipality is committed to pay 61% of the members' post employment medical aid contributions. Under the plan, dependents of the former employees are entitled to continued membership of their medical aid scheme upon the death of the primary member. No other post-employment benefits are provided to these employees. As at the balance sheet date, the members of the medical aid entitled to the post employment medical scheme subsidy were 66 service members and 5 pensioners.

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligations were carried out at 30 June 2014 by ZAQ Financial Consultants. The present value of the defined benefit obligation, and the related current service cost and past service costs, were measured using the Projected Unit Credit Method.

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|-----------------|------|------|
|-----------------|------|------|

6. Employee benefit obligations (continued)

The amounts recognised in the statement of financial position are as follows:

Carrying value

| | | |
|--|-------------|-------------|
| Present value of the defined benefit obligation - Active Members | (2 547 200) | (3 835 000) |
| Present value of the defined benefit obligation-Continuation | (1 221 800) | (2 040 000) |

| | | |
|----------------------|--------------------|--------------------|
| Net liability | (3 769 000) | (5 875 000) |
|----------------------|--------------------|--------------------|

| | | |
|-------------------------|--------------------|--------------------|
| Non-current liabilities | (3 604 000) | (5 286 000) |
| Current liabilities | (165 000) | (589 000) |
| | (3 769 000) | (5 875 000) |

The municipality does not have assets set aside for post-employment medical aid funding that qualify as plan assets in terms of the requirements of IAS19. As such no value has been ascribed to the fair value of plan assets and no other disclosure has been done relating to plan assets.

Changes in the present value of the defined benefit obligation are as follows:

| | | |
|--|------------------|------------------|
| Opening balance | 5 875 000 | 5 258 945 |
| Net expense recognised in the statement of financial performance | (2 106 000) | 616 055 |
| Closing balance | 3 769 000 | 5 875 000 |

Net expense recognised in the statement of financial performance

| | | |
|---|--------------------|----------------|
| Current service cost | 286 000 | 286 000 |
| Interest cost | 417 000 | 417 000 |
| Actuarial losses/(gains) | (2 809 000) | (86 945) |
| Total included in employee related costs | (2 106 000) | 616 055 |

Calculation of actuarial gains and losses

| | | |
|---------------------------------------|-------------|----------|
| Actuarial (gains) losses – Obligation | (2 809 000) | (86 945) |
|---------------------------------------|-------------|----------|

Key assumptions used

The principal assumptions used for the purpose of the actuarial valuation on 30 June 2013 were as follows:

| | | |
|------------------------------------|--------|--------|
| Discount rates used | 8,94 % | 8,80 % |
| Consumer price inflation | 7,05 % | 6,30 % |
| Medical Aid Contribution Inflation | 8,05 % | 7,80 % |
| Net Effective Discount Rate | 1,00 % | 1,00 % |

Demographic Assumptions: Age between husband and wife (Active members - 5 years, Pensioners - actual age used); Proportion married (Active members - 90%, Pensioners - actual married status used) .

Decrement Assumptions: Mortality [Active members: SA(85 - 90), Pensioners: PA(90)]

Data Assumptions: The following data assumptions were made due to non-availability sufficient information; (a) Dates of birth for 13 pensioners could not be obtained. It was therefore assumed that the pensioners are 66 years old; (b) Gender for 8 pensioners could not be determined. It was therefore assumed that all such pensioners are male; (c) The marital status for 6 pensioners could not be established. It was therefore assumed that the pensioners are married and the spouses are 4 years younger than the pensioners.

Continuation percentages: It was assumed that 95% of the deceased pensioners' spouses will continue with their membership.

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Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

| Figures in Rand | 2014 | 2013 |
|-----------------|------|------|
|-----------------|------|------|

6. Employee benefit obligations (continued)

Other assumptions - Sensitivity Analysis

The level of inflation and the discount rate were varied whilst keeping all the other assumptions constant in order to determine the impact of varying the inflation and discount rates on the liability:

| <u>Component</u> | <u>Mortality Rate -20%</u> | <u>Mortality Rate +20%</u> | <u>Medical Aid Inflation -1%</u> | <u>Medical Aid Inflation +1%</u> | |
|------------------|----------------------------|----------------------------|----------------------------------|----------------------------------|---|
| Total Liability | 3 820 000 | 3 723 000 | 3 416 000 | 4 120 000 | - |
| Interest Cost | 340 000 | 331 000 | 303 000 | 367 000 | - |
| Service Cost | 136 000 | 136 000 | 116 000 | 140 000 | - |
| | - | - | - | - | - |

Amounts for the current and future four years are as shown below. .

| | 2014 | 2015 | 2016 | 2017 | 0 |
|---|-----------|-----------|-----------|-----------|---|
| Defined benefit obligation at end of year | 3 769 000 | 4 069 000 | 4 418 000 | 4 807 000 | - |
| Interest costs | 286 000 | 336 000 | 363 000 | 395 000 | - |
| Current service costs | 417 000 | 129 000 | 141 000 | 154 000 | - |
| Expected Employer Benefit Payments | (144 000) | (165 000) | (155 000) | (160 000) | - |

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act and some are multi-employer, exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

Included in defined contribution plan information above, is the Multi-Employer Pension Fund contributions, which due to the fact that sufficient information is not available to enable the municipality to account for the plan(s) as a defined benefit plan(s), are accounted for as Defined Contribution Plans.

Multi-Employer and State Plans

The following are the defined benefit plans that the municipality's employees belong to:

- Municipal Council Pension Fund
- Cape Joint Fund
- South African Local Authorities (SALA) Pension Fund

These are not treated as defined benefit plans as defined by IAS 19, but are accounted for as defined contribution plans. This is in line with the exemption in IAS 19 paragraph 30 which states that where information required for proper defined benefit accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans. The municipality has been unsuccessful in obtaining the necessary information to support proper defined benefit plan accounting due to restrictions imposed by the multi-employer plan. It is therefore deemed impracticable to obtain this information at a suitable level of detail.

In terms of contributions to the fund, the municipality and employee contributions are as follows:

- SALA Pension Fund - Employee (8.6%); Employer (20.78%);
- SAMWU Pension Fund - Employee (8.6%); Employer (18.6%)
- Metropolitan Pension Fund - Employee (8.6%); Employer (18.06%)
- Municipal Gratuity Fund - Employee (8.6%); Employer (18.6%)

An amount of R2,221,348 (2010: R1,787,840) was contributed by council in respect of councillors and employees retirement fund. These contributions have been expensed and are included in employee related costs for the year.

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| Figures in Rand | 2014 | 2013 |
|-----------------------|----------------|----------------|
| 7. Inventories | | |
| Consumable stores | 143 298 | 116 528 |
| Water | 1 641 | 14 417 |
| | 144 939 | 130 945 |

Inventory pledged as security

No inventory is pledged as security as at 30 June 2013 and 30 June 2014.

8. Trade and other receivables (exchange transactions)

| | | |
|--|-----------|-----------|
| Commonage Hire | 156 959 | 148 648 |
| Less Provision for Bad debts (Other Debtors) | (156 959) | (148 648) |
| | - | - |

Trade and other receivables pledged as security

There were no trade and other receivables pledged as security during the current and prior year.

Trade and other receivables impaired

As of 30 June 2014, trade and other receivables of 156 959 (2013: 148 648) were impaired and provided for.

The amount of the provision was - as of 30 June 2014 (2013: -).

The ageing of these loans is as follows:

| | | |
|---------------|---------|---------|
| 3 to 6 months | 8 311 | - |
| Over 6 months | 148 648 | 148 648 |

Reconciliation of provision for impairment of trade and other receivables

| | | |
|--------------------------|----------------|----------------|
| Opening balance | 148 648 | - |
| Provision for impairment | 8 311 | 148 648 |
| | 156 959 | 148 648 |

9. Receivables from non-exchange transactions

| | | |
|--------------------------------------|----------------|---------------|
| Non Exchange Transactions Impairment | (6 310 145) | (6 638 596) |
| Assessment rates | 4 612 725 | 4 905 571 |
| Building clauses | 65 914 | 75 470 |
| Sundry Debtors | 104 195 | 104 520 |
| Informal settlement | 1 712 125 | 1 639 290 |
| | 184 814 | 86 255 |

Receivables from non-exchange transactions pledged as security

There were no other receivables from non-exchange transactions pledged as security during the current and prior year.

Thembelihle Local Municipality
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| Figures in Rand | 2014 | 2013 |
|-----------------|------|------|
|-----------------|------|------|

9. Receivables from non-exchange transactions (continued)

Other receivables from non-exchange transactions not impaired

Some of the other receivables from non-exchange transactions were not considered to be impaired. At 30 June 2014, R525,632 (2013: R1,421,799) were not impaired.

| | | |
|-------------------|--------|--------|
| 1 month past due | 84 822 | 41 697 |
| 2 months past due | 32 263 | 13 127 |
| 3 months past due | 67 729 | 31 431 |

Receivables from non-exchange transactions impaired

As of 30 June 2014, other receivables from non-exchange transactions of R7,149,541 (2013: R6,268,495) were impaired and provided for.

The amount of the provision was R7,149,541 as of 30 June 2014 (2013: R6,268,495).

Reconciliation of provision for impairment of receivables from non-exchange transactions

| | | |
|-------------------------|------------------|------------------|
| Opening balance | 6 343 940 | 5 462 894 |
| Current year adjustment | 212 054 | 881 046 |
| | 6 555 994 | 6 343 940 |

10. VAT receivable

| | | |
|---|-----------|---------|
| Amount outstanding from SARS and Accrued amounts not yet received or paid | 2 187 468 | 913 162 |
|---|-----------|---------|

11. Consumer debtors (exchange transactions)

Gross balances

| | | |
|----------------|-------------------|-------------------|
| Electricity | 6 264 281 | 7 378 349 |
| Water | 10 422 079 | 11 238 938 |
| Other | 7 715 733 | - |
| Sewerage | 8 669 553 | 9 731 333 |
| Refuse | 4 888 428 | 5 489 017 |
| Basic levies | 36 713 | 51 181 |
| Housing rental | 72 297 | 83 085 |
| Arrears | 1 023 412 | 1 323 902 |
| | 39 092 496 | 35 295 805 |

Less: Allowance for impairment

| | | |
|----------------|---------------------|---------------------|
| Electricity | (5 220 066) | (6 130 693) |
| Water | (10 281 353) | (11 113 327) |
| Other | (7 715 733) | - |
| Sewerage | (8 577 346) | (9 615 145) |
| Refuse | (4 846 291) | (5 431 735) |
| Basic levies | (36 713) | (51 181) |
| Housing rental | (71 193) | (67 692) |
| Arrears | (1 014 035) | (1 306 196) |
| | (37 762 730) | (33 715 969) |

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

| Figures in Rand | 2014 | 2013 |
|---|------------------|------------------|
| 11. Consumer debtors (exchange transactions) (continued) | | |
| <u>Net balance</u> | | |
| Electricity | 1 044 215 | 1 247 656 |
| Water | 140 726 | 125 611 |
| Sewerage | 92 207 | 116 188 |
| Refuse | 42 137 | 57 282 |
| Housing rental | 1 104 | 15 393 |
| Arrears | 9 377 | 17 706 |
| | 1 329 766 | 1 579 836 |
| <u>Electricity</u> | | |
| Current (0 -30 days) | 697 682 | 696 893 |
| 31 - 60 days | 167 032 | 246 741 |
| 61 - 90 days | 106 396 | 112 893 |
| 91-120 days | 45 032 | 99 560 |
| 120 - 150 days | 13 533 | 42 374 |
| >150 days | 14 540 | 49 195 |
| | 1 044 215 | 1 247 656 |
| <u>Water</u> | | |
| Current (0 -30 days) | 86 558 | 49 594 |
| 31 - 60 days | 24 993 | 17 381 |
| 61 - 90 days | 14 887 | 18 325 |
| 91-120 days | 8 097 | 11 859 |
| 120 - 150 days | 5 390 | 12 065 |
| >150 days | 801 | 16 387 |
| | 140 726 | 125 611 |
| <u>Sewerage</u> | | |
| Current (0 -30 days) | 54 223 | 55 514 |
| 31 - 60 days | 16 119 | 21 352 |
| 61 - 90 days | 10 670 | 13 854 |
| 91-120 days | 6 750 | 9 391 |
| 121 - 150 days | 2 146 | 5 454 |
| >150 days | 2 299 | 10 623 |
| | 92 207 | 116 188 |
| <u>Refuse</u> | | |
| Current (0 -30 days) | 25 983 | 27 301 |
| 31 - 60 days | 6 504 | 9 082 |
| 61 - 90 days | 4 332 | 5 891 |
| 91-120 days | 2 948 | 4 607 |
| 121 - 150 days | 1 712 | 3 619 |
| >150 days | 658 | 6 782 |
| | 42 137 | 57 282 |
| <u>Housing rental</u> | | |
| Current (0 -30 days) | 687 | 7 501 |
| 31 - 60 days | 417 | 2 879 |
| 61 - 90 days | - | 2 472 |
| 91 - 120 days | - | 1 182 |
| 121 - 150 days | - | 1 359 |
| | 1 104 | 15 393 |

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

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|-----------------|------|------|
|-----------------|------|------|

11. Consumer debtors (exchange transactions) (continued)

Arrears

| | | |
|----------------------|--------------|---------------|
| Current (0 -30 days) | 2 072 | 3 324 |
| 31 - 60 days | 1 892 | 2 834 |
| 61 - 90 days | 1 615 | 2 361 |
| 121 - 150 days | 800 | 2 429 |
| 121 - 365 days | 1 061 | 2 323 |
| > 150 days | 1 937 | 4 435 |
| | 9 377 | 17 706 |

Reconciliation of allowance for impairment

| | | |
|----------------------------------|---------------------|---------------------|
| Balance at beginning of the year | (33 715 969) | (28 098 505) |
| Contributions to allowance | (4 046 761) | (5 617 464) |
| | (37 762 730) | (33 715 969) |

Consumer debtors not impaired

Some consumer debtors were not considered to be impaired. At 30 June 2014, R1 329 766 (2013: R1 579 836) not impaired.

Consumer debtors impaired

As of 30 June 2014, consumer debtors of R37 762 730 (2013: R33 715 969) were impaired and provided for.

The amount of the provision was R37 762 730 as of 30 June 2014 (2013: R33 715 969).

12. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---------------|------------------|------------------|
| Cash on hand | 1 724 | 1 724 |
| Bank balances | 8 404 309 | 6 660 603 |
| | 8 406 033 | 6 662 327 |

The municipality had the following bank accounts

| Account number / description | Bank statement balances | | Cash book balances | | |
|--|-------------------------|------------------|--------------------|------------------|----------|
| | 30 June 2014 | 30 June 2013 | 30 June 2014 | 30 June 2013 | |
| Absa BANK - Current Account (Account No. 40-7030-7030) | - | 149 428 | - | 608 858 | - |
| Absa BANK - Current Account (Account No. 92-2871-4535) | 62 671 | 6 411 951 | 62 671 | 5 834 351 | - |
| Absa BANK - Current Account (Account No. 40-7512-6489) | - | 104 789 | - | 104 789 | - |
| Absa BANK - Current Account (Account No. 40-7722-5487) | - | 110 098 | - | 110 098 | - |
| Standard 048873772-007 | 5 000 000 | - | 5 014 476 | - | - |
| Standard - 48873772001 | 3 542 437 | - | 3 572 638 | - | - |
| Traffic Bank Account | 140 916 | - | 140 916 | 2 507 | - |
| Petty Cash | - | - | 1 724 | 1 724 | - |
| Traffic Account | (386 392) | - | (386 392) | - | - |
| Total | 8 359 632 | 6 776 266 | 8 406 033 | 6 662 327 | - |

13. Revaluation reserve

The Revaluation Reserve arises on the revaluation of Land and Buildings. Where revalued Land or Buildings are sold, the portion of the Revaluation Reserve that relates to that asset, and is effectively realised, is transferred directly to Accumulated Surplus..

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| Figures in Rand | 2014 | 2013 |
|--|-------------------|-------------------|
| 13. Revaluation reserve (continued) | | |
| Opening balance | 31 538 206 | 31 623 056 |
| Change during the year | (84 850) | (84 850) |
| | 31 453 356 | 31 538 206 |
| 14. Fair value adjustment reserve | | |
| The fair value adjustment assets reserve comprises all fair value adjustments on available-for-sale financial instruments. When an asset or liability is derecognised, the fair value adjustments relating to that asset or liability is transferred to surplus or deficit. There has been no movement in the fair value of the investment property. | | |
| 15. Other financial liabilities | | |
| <u>At amortised cost</u> | | |
| Development Bank of South Africa (DBSA) Loans | 5 598 305 | 5 668 095 |
| Loans are repayable on a quarterly basis, repayments on two of the loans have been temporarily suspended. | | |
| <u>Non-current liabilities</u> | | |
| Development Bank of South Africa (DBSA) | 5 537 753 | 5 597 221 |
| <u>Current liabilities</u> | | |
| Development Bank of South Africa (DBSA) | 60 552 | 70 874 |

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|---|------------------|------------------|
| 16. Finance lease obligation | | |
| <u>Minimum lease payments due</u> | | |
| - within one year | 735 866 | 696 277 |
| - in second to fifth year inclusive | 638 680 | 1 321 912 |
| | 1 374 546 | 2 018 189 |
| less: future finance charges | (96 802) | (214 561) |
| Present value of minimum lease payments | 1 277 744 | 1 803 628 |
| <u>Present value of minimum lease payments due</u> | | |
| - within one year | 656 844 | 561 931 |
| - in second to fifth year inclusive | 620 900 | 1 241 696 |
| | 1 277 744 | 1 803 627 |
| Non-current liabilities | 620 901 | 1 241 698 |
| Current liabilities | 656 844 | 561 931 |
| | 1 277 745 | 1 803 629 |

It is municipality policy to lease certain office equipment under finance leases, denominated in the presentation currency (Rand).

The average lease term was 3-5 years and the average effective borrowing rate was 9% (2013: 9%).

Interest rates are fixed at the contract date while some increase by a fixed margin. Some of office equipment leases have fixed repayments whilst others have a variable interest rate. The repayments increase by an average of 10% per year over the period of the lease.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 3.

Defaults and breaches

During the current year, there were no defaults or breaches of any finance leases agreements.

Market risk

The carrying amounts of finance lease liabilities are denominated in Rand.

| | | |
|------|-----------|-----------|
| Rand | 1 277 743 | 1 803 627 |
|------|-----------|-----------|

The fair value of finance lease liabilities approximates their carrying amounts.

17. Unspent conditional grants

Unspent conditional grants and receipts comprises of:

| | | |
|---|-------------------|------------------|
| <u>Unspent conditional grants and receipts</u> | | |
| Municipal Infrastructure Grant | 10 954 624 | 6 705 347 |
| Integrated National Electricity Programme | 164 038 | 433 681 |
| Library Grant | 249 870 | - |
| Municipal Systems Infrastructure Grant | 59 | - |
| Expanded Public Works Programme | 251 610 | 130 120 |
| | 11 620 201 | 7 269 148 |

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Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

| Figures in Rand | 2014 | 2013 |
|-----------------|------|------|
|-----------------|------|------|

17. Unspent conditional grants (continued)

Movement during the year

| | | |
|--------------------------------------|-------------------|------------------|
| Balance at the beginning of the year | 7 574 913 | 4 719 018 |
| Additions during the year | 36 117 677 | 36 362 395 |
| Income recognition during the year | (32 072 389) | (33 812 265) |
| | 11 620 201 | 7 269 148 |

The nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

18. Provisions

Reconciliation of provisions - 2014

| | Opening Balance | Change in Estimate | Total |
|------------------------------|--------------------|-----------------------|------------------|
| Environmental rehabilitation | 5 956 100 | 416 926 | 6 373 026 |
| Long term service provision | 468 331 | 396 669 | 865 000 |
| | 6 424 431 | 813 595 | 7 238 026 |

Reconciliation of provisions - 2013

| | Opening Balance | Change in estimate | Total |
|------------------------------|--------------------|-----------------------|------------------|
| Environmental rehabilitation | 5 464 313 | 491 787 | 5 956 100 |
| Long term service provision | 494 522 | (26 191) | 468 331 |
| | 5 958 835 | 465 596 | 6 424 431 |

| | | |
|-------------------------|------------------|------------------|
| Non-current liabilities | 743 000 | 392 111 |
| Current liabilities | 6 495 026 | 6 032 320 |
| | 7 238 026 | 6 424 431 |

Environmental rehabilitation provision

Council operates two disposal sites. In terms of the Environmental Conservation Act (Act No 73 of 1989), the municipality is supposed to rehabilitate such land upon closure of the dumping site. An estimate has been made for this amount. This amount is provisional as work is underway to determine the exact nature and status of the sites.

19. Third Party Collections

Liability is due to amounts collected on behalf of the Department of Safety on which the municipality keeps 12% and pay over the balance.

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

| Figures in Rand | 2014 | 2013 |
|--|-------------------|-------------------|
| 20. Trade and other payables (exchange transaction) | | |
| Trade payables | 18 175 954 | 13 212 117 |
| Payments received in advanced | 478 920 | 781 351 |
| Hall rental | 3 333 | 3 299 |
| Other payables | (184 372) | 1 381 703 |
| Unallocated Deposits | 118 287 | 131 136 |
| Staff Under/Over Payments | 17 187 | (15 211) |
| | 18 609 309 | 15 494 395 |

21. Consumer deposits

| | | |
|-------|---------|---------|
| Rates | 390 819 | 493 715 |
|-------|---------|---------|

22. Revenue

| | | |
|------------------------------------|-------------------|-------------------|
| Rendering of services | 6 305 | 7 571 |
| Service charges | 14 340 599 | 15 056 590 |
| Rental of facilities and equipment | 306 078 | 416 563 |
| Interest received (trading) | 669 042 | 1 771 784 |
| Licences and permits | 21 773 | 26 282 |
| Building Plans | 13 491 | 10 262 |
| Commissions received | 263 969 | 35 587 |
| Departmental electricity | 833 908 | 219 231 |
| Insurance payback | 63 858 | 81 069 |
| Grave Income | 7 991 | 10 338 |
| SETA | 38 827 | 54 637 |
| Other income | 39 279 | 27 925 |
| Miscellaneous Income | 9 294 | 14 021 |
| Connection Fees | 333 114 | 15 388 |
| Interest received - investment | 659 824 | 224 842 |
| Property rates | 2 093 143 | 2 332 841 |
| Fines | 465 797 | 717 256 |
| Other taxation revenue 2 | 195 706 | 104 750 |
| Government grants & subsidies | 28 781 474 | 47 222 770 |
| | 49 143 472 | 68 349 707 |

The amount included in revenue arising from exchanges of goods or services are as follows:

| | | |
|------------------------------------|-------------------|-------------------|
| Service charges | 14 340 599 | 15 056 590 |
| Rendering of services | 6 305 | 7 571 |
| Rental of facilities and equipment | 306 078 | 416 563 |
| Interest received (trading) | 669 042 | 1 771 784 |
| Licences and permits | 21 773 | 26 282 |
| Building Plans | 13 491 | 10 262 |
| Commissions received | 263 969 | 35 587 |
| Electricity Departmental | 833 908 | 219 231 |
| Insurance Claims | 63 858 | 81 069 |
| Graves Income | 7 991 | 10 338 |
| SETA | 38 827 | 54 637 |
| Other income | 39 279 | 27 925 |
| Miscellaneous Income | 9 294 | 14 021 |
| Connection Fees | 333 114 | 15 388 |
| Interest received - investment | 659 824 | 224 842 |
| | 17 607 352 | 17 972 090 |

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

| Figures in Rand | 2014 | 2013 |
|-----------------|------|------|
|-----------------|------|------|

22. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue

| | | |
|----------------|-----------|-----------|
| Property rates | 2 093 143 | 2 332 841 |
| Fines | 465 797 | 717 256 |
| Sundry Revenue | 195 706 | 104 750 |

Transfer revenue

| | | |
|-------------------------------|-------------------|-------------------|
| Government grants & subsidies | 28 781 474 | 47 222 770 |
| | 31 536 120 | 50 377 617 |

23. Property rates

Rates received

| | | |
|-------------|-----------|-----------|
| Residential | 2 093 143 | 2 332 841 |
|-------------|-----------|-----------|

Property Rates are levied on the value of land and improvements, which valuation is performed every four years. The last valuation came into effect on 1 July 2011.

Interim valuations are processed on an continuous basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied monthly on property owners and are payable the end of each month. Interest is levied at a rate determined by council on outstanding rates amounts.

24. Service charges

| | | |
|---------------------|-------------------|-------------------|
| Service charges | 6 445 367 | 6 067 360 |
| Sale of electricity | 7 895 232 | 8 989 230 |
| | 14 340 599 | 15 056 590 |

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

| Figures in Rand | 2014 | 2013 |
|---|--------------------------|--------------------------|
| 25. Government grants and subsidies | | |
| <u>Operating grants</u> | | |
| Equitable share | 12 914 001 | 14 630 000 |
| | <u>12 914 001</u> | <u>14 630 000</u> |
| <u>Capital grants</u> | | |
| Rural Bulk Infrastructure Grant | 3 104 703 | 15 660 406 |
| Municipal Infrastructure Grant (MIG) | 5 844 106 | 10 963 653 |
| Municipal Systems Implementation Grant (MSIG) | 799 077 | 800 000 |
| Finance Management Grant (FMG) | 1 508 454 | 1 500 000 |
| Intergrated National Electricity Programme (INEP) | 236 529 | 2 530 986 |
| Youth Development Grant | - | 72 000 |
| Library Grant | 344 830 | 194 978 |
| Expanded Public Works Programme | 705 653 | 870 747 |
| National ACIP | 3 324 121 | - |
| | <u>15 867 473</u> | <u>32 592 770</u> |
| | <u>28 781 474</u> | <u>47 222 770</u> |

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy up to R130, based on the monthly billing, and 50 kWh electricity towards the consumer account, which subsidy is determined annually by council. All residential households receive 6 kl water every month.

Financial Management Grant (FMG)

| | | |
|---|-------------|-------------|
| Current year receipts | 1 650 000 | 1 500 000 |
| Conditions met - transferred to revenue | (1 508 454) | (1 500 000) |
| Conditions met - VAT | (141 546) | - |
| | <u>-</u> | <u>-</u> |

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns). All conditions attached to the grant were met. No funds have been withheld.

Regional Bulk Infrastructure Grant

| | | |
|---|-------------|--------------|
| Current-year receipts | 3 539 362 | 16 123 395 |
| Conditions met - transferred to revenue | (3 104 703) | (16 123 395) |
| Conditions met - VAT | (434 659) | - |
| | <u>-</u> | <u>-</u> |

Conditions still to be met - remain liabilities (see note 17).

This grant was allocated for the assistance in water networks and operating expenditure. All conditions attached to the grant were met. No funds have been withheld.

Municipal Infrastructure Grant (MIG)

| | | |
|---|-------------|--------------|
| Balance unspent at beginning of year | 6 705 347 | 4 719 018 |
| Current-year receipts | 11 582 000 | 13 569 000 |
| Refunded | (2 651 000) | (652 000) |
| | - | 32 982 |
| Conditions met - transferred to revenue (excluding Vat) | (4 178 347) | (10 963 653) |
| Conitions met - Vat | (503 376) | - |

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

| Figures in Rand | 2014 | 2013 |
|--|-------------------|------------------|
| 25. Government grants and subsidies (continued) | 10 954 624 | 6 705 347 |

The Municipal Infrastructure Grant (MIG) was allocated for the construction of Highmast, sewerage and water purification infrastructure as part of the upgrading of previously disadvantaged areas. No funds have been withheld.

At yearend, not all conditions were met in respect to the upgrading of infrastructure as all funds received were not spent. This due to the fact that the required infrastructure has not been completed and no certificates have been presented for payment. This resulted in the unspent portion being recognised at year end.

Integrated National Electricity Programme (INEP)

| | | |
|---|----------------|----------------|
| Balance unspent at beginning of year | 433 681 | - |
| Current-year receipts | - | 3 000 000 |
| Conditions met - transferred to revenue (excluding Vat) | (236 529) | (2 566 319) |
| Conditions met - Vat | (33 114) | - |
| | 164 038 | 433 681 |

Conditions still to be met - remain liabilities (see note 17).

The grant was used to finance electricity related transactions or projects in the municipal areas.

Library Grant

| | | |
|---|----------------|-----------|
| Current-year receipts | 603 000 | 298 000 |
| Conditions met - transferred to revenue | (344 830) | (298 000) |
| Vat on Conditions met | (8 300) | - |
| | 249 870 | - |

Conditions still to be met - remain liabilities (see note 17).

The grant was as part of their contribution towards the running of the libraries i.e to cover operational costs.

Youth Development Grant

| | | |
|---|----------|----------|
| Current-year receipts | - | 72 000 |
| Conditions met - transferred to revenue | - | (72 000) |
| | - | - |

Conditions still to be met - remain liabilities (see note 17).

Grant is received from Social Services For Youth Development.

Municipal Systems Improvement Grant (MSIG)

| | | |
|--|-----------|-----------|
| Current year receipts | 890 000 | 800 000 |
| Conditions met -transferred to revenue | (799 077) | (800 000) |
| Conditions met -Vat | (90 864) | - |
| | 59 | - |

Conditions still to be met - remain liabilities (see note 17).

The Municipal Systems Improvement Grant is allocated to municipalities to improve municipal systems and was used to improve information technology networks and Ward Committee operations. All conditions attached to the grant were met. No funds have been withheld.

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

| Figures in Rand | 2014 | 2013 |
|--|----------------|----------------|
| 25. Government grants and subsidies (continued) | | |
| <u>Expanded Public Works Programme</u> | | |
| Balance unspent at beginning of year | 130 120 | - |
| Current year receipts | 1 000 000 | 1 000 000 |
| Conditions met-transferred to revenue | (705 653) | (810 720) |
| Conditions met - Vat | (43 778) | (59 160) |
| Cash refund | 1 041 | - |
| Roll over denied | (130 120) | - |
| | 251 610 | 130 120 |

Conditions still to be met - remain liabilities (see note 17).

The grant is for the improvement of public infrastructure.

26. Other revenue

| | | |
|------------------------|------------------|----------------|
| Building plan | 13 491 | 10 262 |
| Commissions received | 263 969 | 35 587 |
| Electricity call out | 833 908 | 219 231 |
| Insurance claims | 63 858 | 81 069 |
| Grave income | 7 991 | 10 338 |
| SETA | 38 827 | 54 637 |
| Other income | 39 279 | 27 925 |
| Miscellaneous income | 9 294 | 14 021 |
| Connection fees | 28 283 | 14 613 |
| Tender Fees | 73 543 | 775 |
| Other farming income 3 | 231 288 | - |
| | 1 603 731 | 468 458 |

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

| Figures in Rand | 2014 | 2013 |
|------------------------------------|-------------------|------------------|
| 27. General expenses | | |
| Advertising | 154 617 | 120 052 |
| Auditors remuneration | 1 284 284 | 1 573 590 |
| Bank charges | 90 130 | 134 439 |
| Computer expenses | 290 046 | 271 030 |
| Consulting and professional fees | 1 822 417 | 680 045 |
| Donations | 15 555 | - |
| Entertainment | 22 175 | 118 000 |
| Insurance related costs | 18 000 | - |
| Insurance related costs | 39 535 | 43 698 |
| Community development and training | 174 194 | 131 725 |
| Departmental electricity | 595 850 | 330 809 |
| Lease rentals | 32 588 | 22 920 |
| Fuel and oil | 589 030 | 564 900 |
| Subsistence and travelling | 1 357 731 | 1 192 825 |
| Printing and stationery | 330 199 | 439 202 |
| Travelling costs | 5 284 | 4 105 |
| Indigent subsidy | 880 082 | 2 725 |
| Security | 56 992 | 48 520 |
| Telephone and fax | 697 481 | 456 642 |
| Training costs | 277 751 | 14 911 |
| Refuse | 110 088 | 218 503 |
| Grant expenditure | 684 955 | 2 051 564 |
| Tourism development | 6 600 | 11 800 |
| SETA Levy | 180 200 | 205 879 |
| Office expenditure | 34 836 | 27 203 |
| Assurance | 460 294 | 158 427 |
| Workman's compensation | - | 3 065 |
| Motor Registrations | 165 354 | 40 629 |
| TVS | 764 347 | 110 964 |
| Chemicals | 212 631 | 48 093 |
| Other expenses | 113 178 | 559 787 |
| | 11 466 424 | 9 586 052 |

28. Operating (deficit) surplus

Operating (deficit) surplus for the year is stated after accounting for the following:

Finance lease charges

Equipment

- Contractual amounts

| | |
|--------|--------|
| 32 588 | 22 920 |
|--------|--------|

| | | |
|---|------------|------------|
| Loss on sale of property, plant and equipment | - | (50 712) |
| Realisation of Revaluation Surplus | 84 850 | 84 850 |
| Impairment on trade and other receivables | 4 853 581 | 6 053 969 |
| Amortisation on intangible assets | 138 195 | 14 933 |
| Depreciation on property, plant and equipment | 10 618 294 | 10 251 798 |
| Employee costs | 17 519 630 | 17 083 091 |

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

| Figures in Rand | 2014 | 2013 |
|--|-------------------|-------------------|
| 29. Employee related costs | | |
| Basic | 9 267 865 | 7 570 988 |
| Bonus | 824 190 | 656 671 |
| Medical aid - company contributions | 549 267 | 470 947 |
| UIF | 108 029 | 96 222 |
| Other payroll levies | 1 819 151 | 1 446 176 |
| Leave pay provision charge | 13 437 | 140 236 |
| Leave reserve | 346 558 | 109 179 |
| Post-employment benefits - Pension (Defined contribution plan) | (2 105 980) | 616 055 |
| Travel, motor car, accommodation, subsistence and other allowances | 522 840 | 533 635 |
| Overtime | 1 096 731 | 1 051 651 |
| Long-service awards | 396 669 | 48 104 |
| Acting allowances | 18 451 | 106 860 |
| Telephone Allowances | 38 920 | 35 370 |
| Cash in lieu of leave | 6 407 | 5 528 |
| | 12 902 535 | 12 887 622 |

Remuneration of Municipal Manager

| | | |
|--------------------------|----------------|----------------|
| Basic Remuneration | 540 984 | 487 515 |
| Short Term Benefits | 235 210 | 131 112 |
| Post Employment Benefits | 97 377 | 95 886 |
| Other Benefits | 8 402 | - |
| | 881 973 | 714 513 |

Remuneration of Chief Finance Officer

| | | |
|--|----------------|----------------|
| Basic Remuneration | 137 062 | 320 447 |
| Short Term Benefits | 38 216 | 187 026 |
| Post Employment Benefits | 24 799 | 79 207 |
| Other Benefits | 2 008 | - |
| Acting Allowance (paid to managers in Acting capacity) | 169 506 | 78 294 |
| | 371 591 | 664 974 |

The post was vacant from 1 April 2013 till 1 April 2014, an acting allowance was paid to managers who were appointed to the post in an acting capacity during this time.

Remuneration of Corporate Services Director

| | | |
|--------------------------|----------------|----------------|
| Annual Remuneration | 334 777 | 276 490 |
| Short Term Benefits | 205 633 | 75 236 |
| Post Employment Benefits | 58 895 | 57 952 |
| Other Benefits Received | 5 820 | - |
| | 605 125 | 409 678 |

Remuneration of Technical Services Director

| | | |
|---------------------|----------------|----------------|
| Basic Remuneration | 465 463 | 401 300 |
| Short Term Benefits | 351 822 | 181 463 |
| Other Benefits | 8 347 | 20 744 |
| | 825 632 | 603 507 |

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

| Figures in Rand | 2014 | 2013 |
|--|-------------------|-------------------|
| 30. Remuneration of councillors | | |
| Mayor's allowance | 752 466 | 612 003 |
| Councillors allowances | 1 180 308 | 1 190 794 |
| | 1 932 774 | 1 802 797 |
| 31. Debt impairment | | |
| Increase in provision for bad debts | 4 853 581 | 6 033 969 |
| 32. Investment revenue | | |
| <u>Interest revenue</u> | | |
| Bank | 659 824 | 224 842 |
| | - | - |
| | 659 824 | 224 842 |
| 33. Depreciation and amortisation | | |
| Property, plant and equipment | 10 618 294 | 10 251 798 |
| Intangible assets | 138 195 | 14 933 |
| | 10 756 489 | 10 266 731 |
| 34. Impairment of assets | | |
| <u>Impairments</u> | | |
| Trade and other receivables | 4 853 581 | 6 053 969 |
| <u>Reversal of impairments</u> | | |
| Property, plant and equipment | (84 850) | (84 850) |
| Describe the events and circumstances that led to the recognition or reversal of the impairment loss. The recoverable amount [recoverable service amount] of the asset was based on its fair value less costs to sell or [its value in use.] | | |
| | 4 853 581 | 6 053 969 |
| | (84 850) | (84 850) |
| Total impairment losses (recognised) reversed | 4 768 731 | 5 969 119 |

The main classes of assets affected by impairment losses are:

Receivables

The main events and circumstances that led to the recognition of these impairment losses are as follows:

Non payment of long outstanding balances by consumers

The main events and circumstances that led to the reversals of these impairment losses are as follows:

Change in payment patterns due to payment arrangements entered with consumers

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

| Figures in Rand | 2014 | 2013 |
|---|-------------------|-------------------|
| 35. Finance costs | | |
| Trade and other payables | 940 174 | 705 473 |
| Finance leases | 134 345 | 161 847 |
| Bank | (3 127) | - |
| Current borrowings | 9 772 | 10 427 |
| Other interest paid | (116 429) | 16 |
| | 964 735 | 877 763 |
| 36. Auditors' remuneration | | |
| Fees | 1 284 284 | 1 573 590 |
| 37. Bulk purchases | | |
| Electricity | 9 420 048 | 8 727 915 |
| Water | 368 896 | 253 886 |
| | 9 788 944 | 8 981 801 |
| 38. Cash generated from operations | | |
| (Deficit) surplus | (8 023 340) | 13 634 411 |
| Adjustments for: | | |
| Depreciation and amortisation | 10 756 489 | 10 266 731 |
| Gain on sale of assets and liabilities | - | 50 712 |
| Finance costs - Finance leases | 134 345 | 161 847 |
| Impairment deficit | 4 768 731 | 5 969 119 |
| Post Retirement Liability contribution | (2 106 000) | 616 055 |
| Movements in provisions | 813 595 | 465 596 |
| Changes in working capital: | | |
| Inventories | (13 994) | 50 778 |
| Trade and other receivables (exchange transactions) | (4 853 581) | (5 994 588) |
| Other receivables from non-exchange transactions | (98 559) | 230 691 |
| Consumer debtors | 250 070 | (713 094) |
| Trade and other payables (exchange transaction) | 3 114 914 | 5 074 016 |
| VAT | (1 274 306) | 2 176 |
| Unspent conditional grants | 4 351 053 | 2 279 130 |
| Other Non-cash items | 6 187 751 | 286 988 |
| | 14 007 168 | 32 380 568 |

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

| Figures in Rand | 2014 | 2013 |
|--|--------------------|-------------------|
| 39. Commitments | | |
| <u>Authorised capital expenditure</u> | | |
| <u>Approved and Contracted for:</u> | | |
| • Infrastructure | 12 772 738 | 18 532 460 |
| <u>Approved but not yet Contracted for:</u> | | |
| • Infrastructure | 89 542 982 | 244 618 |
| • Budget Amounts | 21 088 000 | 18 074 000 |
| | 110 630 982 | 18 318 618 |
| <u>Operating Commitments</u> | | |
| Approved and Contracted for: | 984 506 | 1 261 122 |
| Approved and not yet Contracted (Budget Amounts) | 50 417 000 | 55 137 000 |
| | 51 401 506 | 56 398 122 |
| <u>This Expenditure will be financed from</u> | | |
| Government Grants | 174 805 226 | 93 249 200 |

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, own funds, grants and subsidies and existing cash resources.

40. Contingencies

Public Prosecutor

The municipality faces a possible liability relating to traffic fines illegally issued, the matter is still being investigated by the Public Prosecutor and the possible financial exposure as well as timing of any related cashflows is currently unknown.

Landfill sites

The Municipality has two active landfill sites. It has been identified that the landfill sites situated in Hopetown and Strydenburg are not licensed as required by the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008).

In accordance with section 68(1) of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008), a person convicted of an offence referred to in section 67(1)(a), (g) or (h) is liable to a fine not exceeding R10 000 000 or to imprisonment for a period not exceeding 10 years, or to both such fine and such imprisonment, in addition to any other penalty or award that may be imposed or made.

Contingent liabilities - Environmental Act

In terms of the Environmental Act, the municipality is responsible for a number of environmental related transactions that may take place in its jurisdiction. This give rise to contingent liabilities. However, the nature of such transactions cannot be estimated both financially and the number of occurrence, if any are to occur. Whilst the municipality is not aware of such liabilities, the following are the key transactions:

- contingent liabilities relating to fines that may be imposed by the Department of Environmental Affairs as a result of illegal dumping by the municipal residents.
- penalties relating to raw sewerage or sewerage not properly treated being released to the nearby rivers or dams.
- penalties relating to lack of proper security at the municipal's dumping site or lack of monitoring waste being dumped there as some waste should be dumped in certain specified ways so as to avoid related healthy hazards e.g. medical waste.

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

| Figures in Rand | 2014 | 2013 |
|-----------------|------|------|
|-----------------|------|------|

41. Related parties

| | |
|---------------------------|--|
| Relationships | |
| Accounting Officer | Refer to accounting officer's report note |
| Members of key management | Y Goibaiyer - Ubuntu Zakah Trading & Transport E Painting - Painting Semanya Associates, Orange River Toll House, Semrock, Mothopo Technologies, Southern Cross Consulting, Sweet Equity Investments, Aquatechnica Holdings B Mpamba - Thembelihle Bricks D Jonas - Thembelihle Bricks |

Related party balances

Amounts included in Trade receivables regarding related parties (consumer accounts with municipality)

| | | |
|---------------|--------|---------|
| Y Goibaiyer | 174 | 23 915 |
| E Painting | 1 491 | 1 248 |
| Jonas DA | 12 270 | 102 799 |
| De Bruin E | 672 | 688 |
| Louw P | 3 | 1 313 |
| Humphreys M.A | 94 046 | 91 086 |

Related party transactions

Interest paid to (received from) related parties

| | | |
|---|------------|------------|
| Department of Finance National Treasury | 16 313 467 | 37 897 000 |
| Department Water Affairs | 6 890 211 | - |
| Department of Public Works | 1 000 000 | 1 000 000 |
| Pixley Ka Seme District Municipality | 450 000 | 803 277 |
| Department of Safety | 418 432 | 198 458 |

Rent received from related parties

| | | |
|---------------|--------|--------|
| Lidia Walters | 48 000 | - |
| Linda Van Wyk | 24 000 | 24 000 |
| Solly Dwango | 24 000 | 24 000 |
| NP Mqokozo | 36 000 | - |
| Tania Gorrah | 36 000 | 36 000 |
| Danny Jonas | 18 000 | 18 000 |
| SF Yekani | 24 000 | 24 000 |

Amounts were received for rentals on municipality property

There were no loans issued to key management.

42. Prior Period Errors & Change in Accounting Policies

A number of correction were made to the prior years' financial statements as a result of prior period errors and/or changes in the reporting framework (Changes in Accounting Policies). Where applicable, the corrections and/or changes were adjusted retrospectively, unless otherwise stated. These corrections/changes resulted in the following adjustments:

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

| Figures in Rand | 2014 | 2013 |
|--|--------------|-------------|
| 42. Prior Period Errors & Change in Accounting Policies (continued) | | |
| <u>Statement of financial position</u> | | |
| Conditional Grant | 305 766 | (1 008 242) |
| Receivables from Non-Exchange Transactions | (821 169) | - |
| Consumer Debtors | (1 213 187) | - |
| Provisions (Land Rehabilitation) | - | 50 478 |
| Receivables from Non-Exchange Transactions Provision | 286 027 | - |
| Consumer Debtors | 1 848 612 | - |
| Trade Payables | (1 449 351) | - |
| Property, plant & equipment | (11 295 362) | 2 737 201 |
| Inventory | - | (16 748) |
| Cash & Cash equivalents | (130 843) | - |
| Leave Accrual | (1 840) | - |
| Investment Property | - | (379 700) |
| Finance Lease Liability | (33 430) | (1 858 061) |
| Operating lease liability | - | 108 791 |
| VAT Receivable | 110 776 | - |
| Long Term Debtors | 1 891 083 | - |
| Accumulated depreciation - PPE | - | (693 704) |
| Other Payables | (1 236 095) | - |
| Provision for Bad Debts | - | 8 088 |

Conditional Grant: Adjustment in opening balance due to wrong amount carried over from prior years.

Receivables from Non Exchange and Provision: Adjustment due to differences between ledger and age analysis.

Consumer Debtors and Provision: Adjustment due to differences between ledger and age analysis.

Property, Plant and Equipment: Adjustment due to assets duplicated in work in progress as well as finished assets.

Trade Payables : Adjustment for payables not accounted for in prior year.

Finance Lease: Adjustment for finance leases previously recorded as operating leases..

Long Term Debtors: Adjustment for change in the amount incorrectly disclosed in the prior year.

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

| Figures in Rand | 2014 | 2013 |
|--|-------------|-----------|
| 42. Prior Period Errors & Change in Accounting Policies (continued) | | |
| <u>Statement of Financial Performance</u> | | |
| Depreciation expense | - | (79 500) |
| Finance Costs | 2 773 | - |
| Miscellaneous Income | (9 267) | - |
| Rental Income | (14 127) | - |
| Employee Costs | (36 642) | - |
| Bad Debts | (2 287 833) | - |
| Expenditure - Grants | - | 1 008 242 |
| General Expenses | 679 484 | - |

Income: Adjustments due to income not accounted for..

General Expenditure: Adjustments to expenditure not recognised

The following is the summarised changes in the Statement of Financial Position and Statement of Financial Performance. Description of the nature of changes in the Statement of Financial Performance for the comparative period are shown after the following summary.

| | | |
|---|---------------------|------------------|
| <u>Statement of Financial Position</u> | | |
| Net Change in Current Assets | (1 369 135) | (24 756) |
| Net Change in Non-current Assets | (9 404 279) | 2 152 288 |
| Net Change in Current Liabilities | (930 329) | 1 008 242 |
| Net Change in Non-Current Liabilities | (33 430) | - |
| | (11 737 173) | 3 135 774 |
| <u>State of Financial Performance</u> | | |
| Net Change in Income | (23 394) | - |
| Net Change in Expenses | (1 637 587) | 1 149 835 |
| | (1 660 981) | 1 149 835 |

43. Comparative figures

Certain comparative figures have been reclassified.

44. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The Council audit committee oversees the monitoring of compliance and oversight of the municipality's risk management framework. The Council a Risk management Committee which is responsible for developing and monitoring the municipality's risk management policies.

The shared audit committee oversees the monitoring of compliance with the municipality's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the municipality. The audit committee is assisted in its oversight role by the municipality's internal audit unit.

Notes to the Financial Statements

| Figures in Rand | 2014 | 2013 |
|-----------------|------|------|
|-----------------|------|------|

44. Risk management (continued)

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Council and the finance committee which has built an appropriate liquidity risk management framework for the management of the Municipality's short, medium and long-term funding and liquidity management requirements. The Municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Municipality also gets funding from the National and provincial governments which help to ease the pressure of any liquidity crisis.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. During 2014 and 2013, the municipality's borrowings at variable rate were denominated in the Rand.

Credit risk

Credit risk consists of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. The municipality cannot, however, limit the rate at which it can offer services to its stakeholders as it has a constitutional mandate to offer these services.

Trade receivables are presented net of an allowance for impairment.

In terms of the Credit Control and Debt Collection Policy, customers whose accounts become in arrears, collection of such accounts should be done through levying penalty charges, issuing demands for payment, restricting service and handling customers over for collection. However, during the current year proper procedures were not enforced to collect amounts owing to the Municipality. Management is in the process of establishing procedures to be implemented by the credit control function to improve debt collection.

45. Going concern

We draw attention to the fact that at 30 June 2014, the municipality had accumulated surplus of R126 300 048 [2012: (R129 213 48)], its total liabilities exceed its assets by R157 753 404 [2010: (R160 752 008)], recorded a deficit of R8 023 340 (2013: R13 634 411 profit) during the current year, the collection rate for municipal services rendered averages 44% of the current period billings and the municipality has been experiencing significant cashflow challenges. This lead to a number of significant negative effects like incurring interest on some of the overdue accounts and non-payment or late payment of obligations when they fall due.

In order to mitigate these negative effects, the municipality is in the process of implementing the following measures, some of which the work has commenced:

- Implementing cost reflective prices and cost cutting measures.;
- Continued support from National Treasury and other government departments (national or provincial) as the municipality is a public entity.

46. Events after the reporting date

The municipality's Corporate Services Manager resigned with effect from 1 July 2014.

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

| Figures in Rand | 2014 | 2013 |
|---|-------------------|------------------|
| 47. Unauthorised expenditure | | |
| Opening balance | 3 305 621 | 48 301 712 |
| Unauthorised expenditure current year (note 54) | 13 610 497 | - |
| Condoned by Council (subsequent to year end) | (3 305 621) | (44 996 091) |
| | 13 610 497 | 3 305 621 |

The current year expenditure will be recommended for condonment to Council

48. Fruitless and wasteful expenditure

| | | |
|--|----------------|------------------|
| Opening balance | 1 614 555 | 1 490 916 |
| Current year | 940 174 | 1 289 968 |
| Condoned by Council (Subsequent to year end) | (1 614 555) | (1 166 329) |
| | 940 174 | 1 614 555 |

Interest on Creditors: The Municipality was charged for interest on outstanding accounts by Eskom, OVK and GWK. These accounts were not settled within 30 days.

The fruitless and wasteful will be recommended to Council for approval.

49. Irregular expenditure

| | | |
|---|-------------------|-------------------|
| Opening balance | 51 229 811 | 40 591 514 |
| Add: Irregular Expenditure - current year | 12 425 887 | 33 455 515 |
| Less: Amounts condoned by Council (subsequent to year end) | (51 229 811) | (22 817 218) |
| | 12 425 887 | 51 229 811 |

Analysis of expenditure awaiting condonation per age classification

| | | |
|--------------|-------------------|-------------------|
| Current year | 12 425 887 | 30 794 212 |
| Prior years | - | 32 277 042 |
| | 12 425 887 | 63 071 254 |

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

| Figures in Rand | 2014 | 2013 |
|---|---|-------------------|
| 49. Irregular expenditure (continued) | | |
| <u>Details of irregular expenditure – current year</u> | | |
| Annual Financial Statements Preparation | Disciplinary steps taken/criminal proceedings No disciplinary measures have been taken. The transactions will be presented to Council for condonement. | 1 209 792 |
| Simlab | No disciplinary measures have been taken. The transactions will be presented to Council for condonement. | 401 968 |
| Explosive Design | No disciplinary measures have been taken. The transactions will be presented to Council for condonement. | 3 350 |
| Worley Parsons | No disciplinary measures have been taken. The transactions will be presented to Council for condonement. | 2 049 286 |
| URSA Civils | No disciplinary measures have been taken. The transactions will be presented to Council for condonement. | 1 282 486 |
| PCI Africa | No disciplinary measures have been taken. The transactions will be presented to Council for condonement. | 3 032 850 |
| HT Pelatona | No disciplinary measures have been taken. The transactions will be presented to Council for condonement. | 3 303 479 |
| Legal Costs | No disciplinary measures have been taken. The transactions will be presented to Council for condonement. | 620 964 |
| RAM Electrical | No disciplinary measures have been taken. The transactions will be presented to Council for condonement. | 398 846 |
| DIP Security | No disciplinary measures have been taken. The transactions will be presented to Council for condonement. | 6 566 |
| Bright Ideas Projects | No disciplinary measures have been taken. The transactions will be presented to Council for condonement. | 66 556 |
| Agriculture Mining distributions | No disciplinary measures have been taken. The transactions will be presented to Council for condonement. | 49 744 |
| | | 12 425 887 |

50. In-kind donations and assistance

Youth Development Programme

| | | |
|------------------------|--------|---|
| Provision of Transport | 15 554 | - |
|------------------------|--------|---|

51. Write-off of Service Charges by a Senior Official

In accordance with its transitional provision as per Directive 2 of the GRAP Reporting Framework, the municipality need not comply with the standard on The Effects Of Changes in Foreign Exchange Transactions, until such time as the measurement period in the transitional provision for any of the following Standards of GRAP have expire:

- Construction Contracts
- Inventories
- Investment Property
- Property Plant and Equipments
- Provisions, Contingent Liabilities and Contingent Assets
- Agriculture
- Intangible Assets
- Heritage assets

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

| Figures in Rand | 2014 | 2013 |
|-----------------|------|------|
|-----------------|------|------|

52. Additional disclosure in terms of Municipal Finance Management Act

Water Distribution Losses

| | | |
|---------------------------------------|------------------|------------------|
| Water Units available for sale (kl) | 1 326 850 | 1 453 086 |
| Water Units Sold (kl) | (643 038) | (621 040) |
| Units lost (kl) | 683 812 | 832 046 |
| Average cost per unit (R6.21 / R5,4) | 6 | 5 |
| Total Loss in Revenue | 4 246 472 | 4 493 050 |

Distribution losses relates to unaccounted water. The foregoing costs, which represented 52% (2013: 57%) of the water purchases for the year, has been included in bulk purchases. The level of the distribution losses are not within the acceptable norms.

Electricity Distribution losses

| | | |
|---|------------------|------------------|
| Units bought (kwh) | 10 071 994 | 10 112 419 |
| Units sold (kwh) | (5 871 595) | (6 350 234) |
| Units lost | 4 200 399 | 3 762 185 |
| Highest Rate (Rands) (2014-R1.57/ 2013 -R1,38) | 2 | 1 |
| Total Loss in Rand Value | 6 594 626 | 5 191 815 |

Distribution losses relates to unaccounted electricity. This cost mainly arises from, inter alia, illegal connections to the electricity network and bridging of meters by consumers. The foregoing costs, which represented 42% (2013: 37.2%) of the electricity purchases for the year, has been included in bulk purchases. Whilst this is not a desirable feature, the level of the distribution losses are well within the acceptable norms.

Audit fees

| | | |
|-------------------|------------------|------------------|
| Opening balance | 5 390 744 | 3 960 350 |
| Current year fees | 1 284 284 | 1 430 394 |
| | 6 675 028 | 5 390 744 |

PAYE and UIF

| | | |
|-------------------------|-------------|-------------|
| Opening balance | - | 94 903 |
| Current year deductions | 1 754 321 | 1 713 679 |
| | - | 76 681 |
| Amount paid | (1 754 321) | (1 885 263) |
| | - | - |

Pension and Medical Aid Deductions

| | | |
|----------------------------|-------------|-------------|
| Current year deductions | 2 669 777 | 1 985 895 |
| Amount paid - current year | (2 669 777) | (1 985 895) |
| | - | - |

VAT

| | | |
|----------------|-----------|---------|
| VAT receivable | 2 187 468 | 913 162 |
|----------------|-----------|---------|

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

| Figures in Rand | 2014 | 2013 |
|-----------------|------|------|
|-----------------|------|------|

52. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2014:

| 30 June 2014 | Outstanding less than 90 days | Outstanding more than 90 days | Total |
|--------------------------|-------------------------------------|-------------------------------------|----------------|
| Councillor Jonas D.A | 12 270 | 46 478 | 58 748 |
| Councillor Humphreys M.A | 13 102 | 80 945 | 94 047 |
| Councillor De Bruin E | 672 | - | 672 |
| Councillor Louw P | 3 | - | 3 |
| | 26 047 | 127 423 | 153 470 |

| 30 June 2013 | Outstanding less than 90 days | Outstanding more than 90 days | Total |
|--------------------------|-------------------------------------|-------------------------------------|---------------|
| Councillor Louw P | 1 056 | 256 | 1 312 |
| Councillor De Bruin E | 489 | 199 | 688 |
| Councillor Jonas D.A | 10 724 | 58 706 | 69 430 |
| Councillor Humphreys M.A | 1 011 | 256 | 1 267 |
| | 13 280 | 59 417 | 72 697 |

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

| 30 June 2014 | Highest outstanding amount | Aging (in days) |
|--------------------------|----------------------------------|--------------------|
| Councillor Humphreys M.A | 80 945 | 90 |
| Councillor Jonas D.A | 46 478 | 90 |
| | 127 423 | 180 |

| 30 June 2013 | Highest outstanding amount | Aging (in days) |
|-----------------|----------------------------------|--------------------|
| Mayor Jonas D.A | 58 706 | 90 |

53. Utilisation of Long-term liabilities reconciliation

| | | |
|---|-------------|-------------|
| Long-term liabilities raised | 5 598 305 | 5 668 095 |
| Used to finance property, plant and equipment | (5 598 305) | (5 668 095) |
| | - | - |

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Due to the municipality's cashflow challenges, no cash has been set aside to repay long-term liabilities.

Thembelihle Local Municipality
Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

| Figures in Rand | 2014 | 2013 |
|-----------------|------|------|
|-----------------|------|------|

54. Actual operating expenditure versus budgeted operating expenditure

| <u>Department</u> | <u>Original Budget</u> | <u>Adjustments</u> | <u>Adjusted Budget</u> | <u>Actual</u> | <u>Difference</u> | <u>Unauthorised Expenditure</u> |
|---------------------------------------|------------------------|--------------------|------------------------|-------------------|--------------------|---------------------------------|
| Council | 3 998 371 | - | 3 998 371 | 3 763 831 | (234 541) | - |
| Municipal Manager | 1 219 203 | - | 1 219 203 | 1 312 454 | 93 251 | 93 251 |
| Finance | 14 847 151 | - | 14 847 151 | 2 588 482 | (12 258 669) | - |
| Interns | 528 926 | - | 528 926 | 312 425 | (216 501) | - |
| Donations | - | - | - | 15 555 | 15 555 | 15 555 |
| Administration | 3 451 860 | - | 3 451 860 | 4 061 276 | 609 416 | 609 416 |
| Fixed Property and Municipal Property | 222 696 | - | 222 696 | 2 432 575 | 2 209 879 | 2 209 879 |
| Support Services | 4 270 359 | - | 4 270 359 | 1 037 399 | (3 232 960) | - |
| Library | 790 542 | - | 790 542 | 837 798 | 47 256 | 47 256 |
| Community Services | 250 976 | - | 250 976 | 605 203 | 354 227 | 354 227 |
| Traffic | 1 676 633 | - | 1 676 633 | 1 760 507 | 83 874 | 83 874 |
| Disaster Management | 34 886 | - | 34 886 | 22 957 | (11 928) | - |
| Public Works | 7 102 478 | - | 7 102 478 | 8 287 962 | 1 185 484 | 1 185 484 |
| Project Management | 636 000 | - | 636 000 | 579 871 | (56 129) | - |
| Electrical Services | 7 860 664 | - | 7 860 664 | 13 402 380 | 5 541 716 | 5 541 716 |
| Water Services | 3 438 784 | - | 3 438 784 | 4 801 958 | 1 363 174 | 1 363 174 |
| Sewerage | 1 175 027 | - | 1 175 027 | 2 157 242 | 982 215 | 982 215 |
| Refuse Removal | 1 428 021 | - | 1 428 021 | 2 552 471 | 1 124 450 | 1 124 450 |
| Total Expenditure | 52 932 577 | - | 52 932 577 | 50 532 346 | (2 400 231) | 13 610 497 |
| | 52 932 577 | - | 52 932 577 | 50 532 346 | (2 400 231) | 13 610 497 |

55. Budget differences

Differences between budget and actual amounts basis of preparation and presentation

The budget and the accounting bases differ. The financial statements for the whole-of-government are prepared on the accrual basis using a classification based on the nature of expenses in the statement of financial performance. The financial statements are consolidated statements that include all controlled entities, including government business enterprises for the fiscal period from to . The financial statements differ from the budget, which is approved on the cash basis and which deals only with the general government sector that excludes government business enterprises and certain other non-market government entities and activities.

The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by functional classification to be on the same basis as the final approved budget. In addition, adjustments to amounts in the financial statements for timing differences associated with the continuing appropriation and differences in the entities covered (government business enterprises) were made to express the actual amounts on a comparable basis to the final approved budget. The amounts of these adjustments are identified in the following table.

Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of reallocations within the approved budget parameters. For details on these changes please refer to pages to in the annual report.

The changes between the approved and final budget are a consequence of changes in the overall budget parameters. For details on these changes please refer to pages to in the annual report

Appendix A

Schedule of external loans as at 30 June 2014

| Loan Number | Redeemable | Balance at 30 June 2013 | Received during the period | Redeemed written off during the period | Balance at 30 June 2014 | Carrying Value of Property, Plant & Equip Rand | Other Costs in accordance with the MFMA Rand |
|---|------------|-------------------------|----------------------------|--|-------------------------|--|--|
| | | Rand | Rand | Rand | Rand | | |
| Development Bank of South Africa | | | | | | | |
| Annuity Loan | 102338/1 | 2024/12/30 | 1 761 589 | - | - | 1 761 589 | - |
| Annuity Loan | 102338/2 | 2024/12/30 | 3 776 164 | - | - | 3 776 164 | - |
| Annuity Loan | 11932/101 | 2014/12/30 | 96 619 | - | 43 273 | 53 346 | - |
| Annuity Loan | 12864/101 | 2014/12/30 | 33 634 | - | 26 428 | 7 206 | - |
| | | | 5 668 006 | - | 69 701 | 5 598 305 | - |
| Total external loans | | | | | | | |
| Development Bank of South Africa | | | 5 668 006 | - | 69 701 | 5 598 305 | - |
| | | | 5 668 006 | - | 69 701 | 5 598 305 | - |

Appendix B

| Analysis of property, plant and equipment as at 30 June 2014 | |
|--|--------------------------|
| Cost/Revaluation | Accumulated depreciation |

| | Opening Balance Rand | Additions Rand | Disposals Rand | Transfers Rand | Revaluations Rand | Other changes, movements Rand | Closing Balance Rand | Opening Balance Rand | Disposals Rand | Transfers Rand | Depreciation Rand | Impairment loss Rand | Closing Balance Rand | Carrying value Rand |
|--|----------------------------|-------------------|-------------------|-------------------|----------------------|-------------------------------------|----------------------------|----------------------------|-------------------|-------------------|----------------------|-------------------------|----------------------------|---------------------------|
| | | | | | | | | | | | | | | |
| Land and buildings | | | | | | | | | | | | | | |
| Land (Separate for AFS purposes) | 28 598 250 | - | - | - | - | - | 28 598 250 | - | - | - | - | - | - | 28 598 250 |
| Landfill Sites (Separate for AFS purposes) | 6 373 026 | - | - | - | - | - | 6 373 026 | (4 248 684) | - | - | (1 062 171) | - | (5 310 855) | 1 062 171 |
| Quarries (Separate for AFS purposes) | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Buildings (Separate for AFS purposes) | 1 812 750 | - | - | - | - | - | 1 812 750 | (1 013 956) | - | - | (84 850) | - | (1 098 806) | 713 944 |
| | 36 784 026 | - | - | - | - | - | 36 784 026 | (5 262 640) | - | - | (1 147 021) | - | (6 409 661) | 30 374 365 |
| Infrastructure | | | | | | | | | | | | | | |
| Roads, Pavements & Bridges | 152 918 391 | - | - | - | - | - | 152 918 391 | (104 417 595) | - | - | (3 065 760) | - | (107 483 355) | 45 435 036 |
| Water Network | 79 801 003 | 382 870 | - | 890 809 | - | - | 81 074 682 | (45 158 264) | - | - | (3 031 623) | - | (48 189 887) | 32 884 795 |
| Electricity Network | 17 483 817 | - | - | 1 080 666 | - | - | 18 564 483 | (10 010 612) | - | - | (541 284) | - | (10 551 896) | 8 012 587 |
| Wastewater Network | 35 690 873 | 681 544 | - | - | - | - | 36 372 417 | (14 903 748) | - | - | (1 369 122) | - | (16 272 870) | 20 099 547 |
| Under Construction | 39 639 237 | 10 442 308 | - | (1 971 475) | - | - | 48 110 070 | - | - | - | - | - | - | 48 110 070 |
| Dams & Reservoirs | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Water purification | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Reticulation | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Reticulation | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Sewerage purification | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Transportation (Airports, Car Parks, Bus Terminals and Taxi Ranks) | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Housing | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Waste Management | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Gas | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other (fibre optic, WIFI infrastruc | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other 1 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | 325 533 321 | 11 506 722 | - | - | - | - | 337 040 043 | (174 490 219) | - | - | (8 007 789) | - | (182 498 008) | 154 542 035 |
| Community Assets | 4 971 146 | - | - | - | - | - | 4 971 146 | (1 518 103) | - | - | (459 456) | - | (1 977 559) | 2 993 587 |

Appendix B

Analysis of property, plant and equipment as at 30 June 2014

Cost/Revaluation Accumulated depreciation

| | Opening Balance Rand | Additions Rand | Disposals Rand | Transfers Rand | Revaluations Rand | Other changes, movements Rand | Closing Balance Rand | Opening Balance Rand | Disposals Rand | Transfers Rand | Depreciation Rand | Impairment loss Rand | Closing Balance Rand | Carrying value Rand |
|--|----------------------------|-------------------|-------------------|-------------------|----------------------|-------------------------------------|----------------------------|----------------------------|-------------------|-------------------|----------------------|-------------------------|----------------------------|---------------------------|
| Heritage assets | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Specialised vehicles | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other assets | | | | | | | | | | | | | | |
| General vehicles | 942 700 | - | - | - | - | - | 942 700 | (397 373) | - | - | (89 779) | - | (487 152) | 455 548 |
| Plant & equipment | 1 453 018 | 64 651 | - | - | - | - | 1 517 669 | (1 171 697) | - | - | (97 227) | - | (1 268 924) | 248 745 |
| Computer Equipment | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Computer Software (part of computer equipment) | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Furniture & Fittings | 1 319 853 | 44 354 | - | - | - | - | 1 364 207 | (952 773) | - | - | (157 198) | - | (1 109 971) | 254 236 |
| Office Equipment | 3 306 878 | 80 665 | - | - | - | - | 3 387 543 | (1 496 441) | - | - | (643 846) | - | (2 140 287) | 1 247 256 |
| Office Equipment - Leased | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Abattoirs | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Markets | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Airports | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Security measures | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Civic land and buildings | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other buildings | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other land | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Bins and Containers | 6 780 | - | - | - | - | - | 6 780 | (5 527) | - | - | (460) | - | (5 987) | 793 |
| Work in progress | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other | 299 138 | - | - | - | - | - | 299 138 | (252 219) | - | - | (15 520) | - | (267 739) | 31 399 |
| Other Assets - Leased | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Surplus Assets - (Investment or Inventory) | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Housing development | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total property plant and equipment | 7 328 367 | 189 670 | - | - | - | - | 7 518 037 | (4 276 030) | - | - | (1 004 030) | - | (5 280 060) | 2 237 977 |
| Land and buildings | 36 784 026 | - | - | - | - | - | 36 784 026 | (5 262 640) | - | - | (1 147 021) | - | (6 409 661) | 30 374 365 |
| Infrastructure | 325 533 321 | 11 506 722 | - | - | - | - | 337 040 043 | (174 490 219) | - | - | (8 007 789) | - | (182 498 008) | 154 542 035 |
| Community Assets | 4 971 146 | - | - | - | - | - | 4 971 146 | (1 518 103) | - | - | (459 456) | - | (1 977 559) | 2 993 587 |
| Heritage assets | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Specialised vehicles | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other assets | 7 328 367 | 189 670 | - | - | - | - | 7 518 037 | (4 276 030) | - | - | (1 004 030) | - | (5 280 060) | 2 237 977 |
| 374 616 860 | 11 696 392 | - | - | - | - | - | 386 313 252 | (185 546 992) | - | - | (10 618 296) | - | (196 165 288) | 190 147 964 |
| Agricultural/Biological assets | | | | | | | | | | | | | | |
| Agricultural | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Biological assets | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Intangible assets | | | | | | | | | | | | | | |

Appendix B

| Analysis of property, plant and equipment as at 30 June 2014 | |
|--|--------------------------|
| Cost/Revaluation | Accumulated depreciation |

| | Opening Balance Rand | Additions Rand | Disposals Rand | Transfers Rand | Revaluations Rand | Other changes, movements Rand | Closing Balance Rand | Opening Balance Rand | Disposals Rand | Transfers Rand | Depreciation Rand | Impairment loss Rand | Closing Balance Rand | Carrying value Rand |
|------------------------------------|----------------------------|-------------------|-------------------|-------------------|----------------------|-------------------------------------|----------------------------|----------------------------|-------------------|-------------------|----------------------|-------------------------|----------------------------|---------------------------|
| Computers - software & programming | - | 22 739 | - | - | - | - | 22 739 | - | - | - | (138 195) | - | (138 195) | (115 456) |
| Other | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | - | 22 739 | - | - | - | - | 22 739 | - | - | - | (138 195) | - | (138 195) | (115 456) |
| Investment properties | | | | | | | | | | | | | | |
| Investment property | 5 432 803 | - | - | - | - | - | 5 432 803 | - | - | - | - | - | - | 5 432 803 |
| | 5 432 803 | - | - | - | - | - | 5 432 803 | - | - | - | - | - | - | 5 432 803 |
| Total | | | | | | | | | | | | | | |
| Land and buildings | 36 784 026 | - | - | - | - | - | 36 784 026 | (5 262 640) | - | - | (1 147 021) | - | (6 409 661) | 30 374 365 |
| Infrastructure | 325 533 321 | 11 506 722 | - | - | - | - | 337 040 043 | (174 490 219) | - | - | (8 007 789) | - | (182 498 008) | 154 542 035 |
| Community Assets | 4 971 146 | - | - | - | - | - | 4 971 146 | (1 518 103) | - | - | (459 456) | - | (1 977 559) | 2 993 587 |
| Heritage assets | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Specialised vehicles | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other assets | 7 328 367 | 189 670 | - | - | - | - | 7 518 037 | (4 276 030) | - | - | (1 004 030) | - | (5 280 060) | 2 237 977 |
| Agricultural/Biological assets | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Intangible assets | - | 22 739 | - | - | - | - | 22 739 | - | - | - | (138 195) | - | (138 195) | (115 456) |
| Investment properties | 5 432 803 | - | - | - | - | - | 5 432 803 | - | - | - | - | - | - | 5 432 803 |
| | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | 380 049 663 | 11 719 131 | - | - | - | - | 391 768 794 | (185 546 992) | - | - | (10 756 491) | - | (196 303 483) | 195 465 311 |

Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003

| Name of Grants | Name of organ of state or municipal entity | Quarterly Receipts | | | Quarterly Expenditure | | | Grants and Subsidies delayed / withheld | | Reason for delay/ withholding of funds | Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act | Reason for noncompliance |
|-----------------------------|--|--------------------|---|---|-----------------------|--------------|---|---|---|--|--|--------------------------|
| | | Jun | | | | Jun | | | | | Yes/ No | |
| Equitable Share | National | 12 914 000 | - | - | - | (12 914 000) | - | - | - | | Yes | |
| FMG | National | 1 650 000 | - | - | - | (1 508 454) | - | - | - | | Yes | |
| MIG | National | 11 582 000 | - | - | - | (4 178 347) | - | - | - | | Yes | |
| MSIG | National | 890 000 | - | - | - | (799 077) | - | - | - | | Yes | |
| INEP | Provincial | - | - | - | - | - | - | - | - | | | |
| Department of Water Affairs | National | 3 508 480 | - | - | - | (3 508 480) | - | - | - | | Yes | |
| EPWP | Provincial | 1 000 000 | - | - | - | (748 653) | - | - | - | | Yes | |
| Library | Provincial | 603 000 | - | - | - | (353 129) | - | - | - | | Yes | |
| RBI | National | 3 539 362 | - | - | - | (3 539 362) | - | - | - | | Yes | |
| Other | Other | - | - | - | - | - | - | - | - | | | |
| | | 35 686 842 | - | - | - | (27 549 502) | - | - | - | | | |

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.